No. 93-1251

(10)

In the Supreme Court of the United States

OCTOBER TERM, 1993

DONNA E. SHALALA, SECRETARY OF HEALTH AND HUMAN SERVICES, PETITIONER

v.

GUERNSEY MEMORIAL HOSPITAL, RESPONDENT

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

JOINT APPENDIX

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Petition for Certiorari Filed February 1, 1994
Certiorari Granted April 4, 1994

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RELEVANT DOCKET ENTRIES

United States District Court

11/1/90	Complaint filed.
1/30/91	Answer filed.
3/15/91	Motion by respondent for summary judgment filed.
4/23/91	Motion by petitioner for summary judgment filed.
3/30/92	Memorandum, Opinion and Order, granting petitioner's motion for summary judgment (filed 4/23/91), denying respondent's motion for summary judgment (filed 3/15/91), and dismissing case.
3/30/92	Judgment.
5/26/92	Notice of appeal by respondent filed.

United States Court of Appeals For The Sixth Circuit

3/2/93	Oral argument held.
6/18/93	Opinion reversing judgment of the District Court issued; judgment entered.
10/4/93	Order denying the petition for rehearing with suggestion of rehearing *in banc*.

United States Supreme Court

12/28/93	Order by Justice Stevens extending the time for filing a petition for a writ of certiorari to 2/1/94.
2/1/94	Petition for a writ of certiorari filed.
3/3/94	Brief for respondent in opposition filed.
3/8/94	Supplementary Brief for respondent in opposition filed.

3/21/94	Reply Brief for petitioner filed.
4/4/94	Petition for certiorari granted.

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September 20, 1990

VIA FEDERAL EXPRESS

Anthony J. Tirone, Director
Office of the Attorney Advisor
Health Care Finance Administration
669 East High Rise
6325 Security Boulevard
Baltimore, MD 21207

Re: Guernsey Memorial Hospital
PRRB Case No. 88-1092
PRRB Decision No. 90-D50

Dear Mr. Tirone:

The Provider, Guernsey Memorial Hospital, hereby responds to the comments of the Bureau of Policy Development which were recently submitted in the above-referenced matter. The Provider received these comments on September 19, 1990.

First, in regard to the advance refunding issue, the Bureau refers this Administrator to comments the Bureau previously submitted in *Mercy Hospital v. Blue Cross and Blue Shield Assoc.*, PRRB Decision No. 89-D65 and *Baptist Hospitals Group v. Blue Cross and Blue Shield Assoc.*,

PRRB Decision No. 89-D65. The Bureau's comments in *Mercy* and *Baptist* were repudiated by the Board's decision in this case. In addition, the Bureau's arguments have already been rebutted in the Provider's initial comments submitted herein on September 14, 1990 and in the Provider's position paper and post-hearing brief.

Second, on page two of its comments, the Bureau discusses a series of meetings and discussions which allegedly occurred regarding the adoption of PRM Section 233. There is no evidence of any of these meetings or discussions in the record of this case. If the Intermediary believed that the content of these alleged meetings and discussions was important to this matter, it could have offered the same as evidence at the hearing before the Provider Reimbursement Review Board. The Intermediary did not do so. As such, 42 C.F.R. Section 405.1875(e)(2) expressly forbids the Bureau from referring in its comments to the alleged meetings and discussions. Such regulation states as follows regarding submissions to this Administrator: "[t]hese submissions shall be limited to issues the Administrator has decided to review *and confined to the record of the Board hearing*." (emphasis added). Pursuant to Section 405.1875, this Administrator cannot properly consider the representations contained on page two of the Bureau's comments since they are external to the record in this case.

Finally, the Bureau, in reference to the debt service fund issue, cites a decision which actually supports the Board's action in this case. In *Good Samaritan Hospital v. Blue Cross Assoc./Mutual Hospital Insurance, Inc.*, PRRB Decision No. 79-D80 (Nov. 26, 1979), *aff'd* HCFA Admin. Decision (Jan. 23, 1980), the Bureau similarly argued that a bond restricted fund designated to pay principal and interest was not funded depreciation. The Deputy Administrator disagreed with the Bureau's position and asserted:

"[t]he Deputy Administrator does not agree with the comment that the lease rental reserve fund does not qualify as a funded depreciation account because it is partially designated for payment of interest on the bonds." The Deputy Administrator went on to affirm the Board's reversal of the Intermediary, finding that the provider's allowable interest expense was not properly offset with income earned on the bond restricted fund.

The decision in *Good Samaritan* is consistent with the ruling the Board cited in its decision in this case. In both *Good Samaritan* and *General Hospital of Everett v. Blue Cross and Blue Shield Assoc.*, PRRB Decision No. 88-D14 (Jan. 15, 1988), the Board held that interest income earned from a bond restricted fund, such as the debt service fund at issue herein, cannot be offset against a provider's allowable interest expense.

For the foregoing reasons, and those set forth in the Provider's initial comments, post-hearing brief and position paper already filed in this matter, the Provider respectfully requests that this Administrator affirm the decision of the Board.

Sincerely,

/s/ Scott Taebel

SCOTT W. TAEBEL

SWT/kjm
copy: Bernard M. Talbert
Kathleen A. Buto
a2920

DEPARTMENT OF HEALTH & HUMAN SERVICES
Health Care Financing Administration

MEMORANDUM

Date: Sep. 17, 1990

From: Director, Bureau of Policy Development

Subject: Guernsey Memorial Hospital Appeal, Provider Reimbursement Review Board (PRRB) Decision No. 90-D50—INFORMATION

To: Director, Office of the Attorney Advisor

The Bureau of Policy Development believes the subject case was wrongly decided with respect to both issues and that the PRRB's decision should be reversed.

Regarding issue number one involving the treatment of an advance refunding of debt, the facts are reasonably straightforward. The provider incurred a loss on the advance refunding of certain debt. There was no dispute regarding the reasonableness of the advance refunding, nor whether it was related to patient care. The sole dispute was the proper handling of the loss incurred by the provider on the advance refunding. The fiscal intermediary properly applied section 233 of the Provider Reimbursement Manual (PRM). PRM section 233 does not *explicitly* recognize a gain or loss on an advance refunding. Rather, the policy set forth therein calls for recognition of the constituent elements of income and expense associated with the advance refunding in such a manner that any gain or loss incurred is *implicitly* recognized from the date the advance refunding occurs to the date the holders of the refunded debt receive the principal payment. The PRRB rejected the clear policy expressed in PRM section 233 in favor of immediate recognition of the loss as required under generally accepted accounting principles (GAAP).

We direct your attention to our comments regarding PRRB Decision Nos. 89-D64 and 89-D65 sent to your office by memorandum dated October 13, 1989 (copy attached). Although the transactions involved in those PRRB decisions predated the effective date of Provider Reimbursement Manual section 233, we believe that our objections to the immediate recognition of a gain or loss on an advance refunding expressed in that memorandum are also applicable to the instant case. Rather than to repeat those objections here, we will incorporate them by reference.

Because this case involves an advance refunding transaction initiated after the effective date of PRM section 233, and in light of the decision in the case of *Charlotte Memorial Hospital and Medical Center, Inc. v. Bowen*, No. 87-3745 (CA-4 September 1988) (*Charlotte*), we believe some additional comment is necessary. In *Charlotte*, the court held that the Secretary would be at the very limit of his authority in prescribing regulatory interpretations that conflict with GAAP and that such interpretations would be subject to greater scrutiny than interpretations that are consistent with GAAP. We believe that a review of the historical development of the policy expressed in PRM section 233 will show that this policy was cultivated with extraordinary public consultation. To wit, in late 1981, we were in the process of preparing a version of proposed new PRM section 233 which would have precisely followed the approach set forth in GAAP for recognizing gains and losses associated with the advance refunding of debt. Before final publication of the PRM revision, we withdrew the proposal based on overwhelming objections from the provider community. To resolve these objections, we met with representatives from the Blue Cross and Blue Shield Association, the Health Care Financial

Management Association, the American Institute of Certified Public Accounts (the recognized authority with respect to GAAP pronouncements), the American Hospital Association, the Catholic Health Association of the United States, the Federation of American Hospitals, and the public accounting firm of Ernst & Whinney (now Ernst & Young). In addition, we received written and/or oral comments from the law firm of Weissburg and Aronson and the Health Care Financing Study Group (investment counselors). Based on this most intensive and intimate prior consultation, the overwhelming majority opinion was to adopt the policy that is currently expressed in PRM section 233. (Only the Federation of American Hospitals continued to believe that the GAAP approach should prevail.) The substance of the majority opinion, with which we agreed, was that the broad, underlying accounting principle that dictated the immediate recognition of gains and losses on advance refundings was the principle of conservatism. The majority consultees felt that, for Medicare reimbursement purposes, such an approach would cause distortions and a mismatching of expenses with the periods benefitted. The majority felt that the broad, underlying accounting principle of matching expenses with the periods benefitted was a much more appropriate principle upon which to base Medicare reimbursement. Thus, we believe the current version of PRM section 233, which has undergone a most intensive prior consultation, not only effects the payment of reasonable costs associated with advance refundings, but also would pass muster under the closer scrutiny test expressed in *Charlotte*.

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Writer's Direct Dial Number

October 10, 1989

Guernsey Memorial Hospital
1241 North Clark Street
Cambridge, Ohio 43725

Re: $15,375,000 City of Cambridge, Ohio
Hospital Improvement Revenue Refunding
Bonds, Series 1985
(Guernsey Memorial Hospital Project)

Dear Sirs:

You have requested us to advise you as to the liability of Guernsey Memorial Hospital (the "Hospital") concerning $7,600,000 Hospital Improvement First Mortgage Revenue Bonds which the City of Cambridge, Ohio (the "City") issued on January 1, 1972 (the "1972 Bonds") and $10,410,000 Hospital Improvement Revenue Bonds, Series 1982 which the City issued on October 1, 1982 (the "1982 Bonds"), following the issuance of the above-referenced refunding issue.

In this regard, we have examined the following:

(i) Copies of the Indenture of Mortgage, dated as of January 1, 1972, as supplemented by the Supplemental Indenture of Mortgage, dated as of October 1, 1982 (collectively, the "Prior Indenture") each between the City and BancOhio National Bank (the "Trustee");

(ii) Copies of the Lease, as supplemented by the Supplemental Lease, dated as of October 1, 1982, each dated as of January 1, 1972, between the City and the Hospital;

(iii) A copy of the Trust Indenture, dated as of February 1, 1985, between the City and the Trustee;

(iv) A copy of the Lease, dated February 1, 1985, between the City and the Hospital and the Memorandum of Assignment of Lease, of the same date, from the City to the Trustee;

(v) A copy of the Termination of Lease and Supplemental Lease, Release and Discharge of Indenture of Mortgage and Supplemental Indenture of Mortgage and Release of Guaranty, dated as of February 27, 1985, executed by the City, the Trustee and the Hospital;

(vi) A copy of the Escrow Agreement, dated as of February 1, 1985, among the City, the Trustee and the Hospital;

(vii) A copy of the Subscription for Purchase and Issue of U.S. Treasury Securities State and Local Government Series, filed with the Federal Reserve Bank of Cleveland on February 7, 1985;

(viii) A copy of the Verification Report of Ernst & Whinney, dated as of February 27, 1985; and

(ix) A copy of the opinion of Squire, Sanders & Dempsey, as Bond Counsel, dated as of February 27, 1985, relating to compliance with the conditions to defeasance of the 1972 Bonds and 1982 Bonds, a copy of which is attached to this letter.

Please be advised, however, that we have not assumed any responsibility for making any independent investigation or verification of any factual matter stated in or represented by any of the foregoing documents or any other factual matter. We further have assumed the conformity to originals of all copies of documents submitted to us and the authenticity of all signatures thereon of, the due execution and delivery pursuant to due authorization thereof by, and the validity and binding effect thereof on, each person other than the Hospital which is a party thereto.

Based upon and subject to the foregoing, we advise you that the 1972 Bonds and the 1982 Bonds have been deemed paid and discharged within the meaning of the Prior Indenture, and the Hospital has been released and discharged from any further obligation to pay debt service on the 197[illegible] [illegible]onds and 1982 Bonds.

This [illegible]tter is intended for the information solely of the party to whom it is addressed, and no one other than such party is entitled to rely on this letter. Such limitation does not apply to the Provider Reimbursement Review Board for the purposes of its determination concerning the Hospital's Medicare appeal for the 1985 cost reporting period.

Very truly yours,

BRICKER & ECKLER

By: /s/ Randall E. Moore

A Partner

EXHIBIT B

CLIENT'S COPY

Form **990** — Department of the Treasury, Internal Revenue Service

Return of Organization Exempt from Income Tax

Under section 501(c) (except black lung benefit trust or private foundation) of the Internal Revenue Code or section 4947(a)(1) trust

Note: You may be required to use a copy of this return to satisfy State reporting requirements. See instruction D.

OMB No. 1545-0047 — 1985

For the calendar year 1985, or fiscal year beginning , 1985, and ending , 19

Use IRS label. Otherwise, please print or type.

Name of organization
80 31-4391798 990 12 3 12 03
GUERNSEY MEMORIAL HOSPITAL
1341 N CLARK ST
CAMBRIDGE OH 43725

A Employer identification number (see instruction L) 31: 4391798

B State registration number (see instruction D)

C If address changed, check here . . . . ▶ ☐

D Check type of organization—Exempt under section ▶ ☒ 501(c)(3) (insert number), OR ▶ ☐ section 4947(a)(1) trust

Check here if application for exemption is pending . . ▶ ☐

E Accounting method: ☐ Cash ☒ Accrual ☐ Other (specify) ▶

F Section 4947(a)(1) trusts filing this form in lieu of Form 1041, check here ▶ ☐ (see instruction C10).

G Is this a group return (see instruction J) filed for affiliates? . . . . . ☐ Yes ☒ No
Is this a separate return filed by a group affiliate? . . . . . ☐ Yes ☒ No

If "Yes" to either, give four-digit group exemption number (GEN) ▶

☐ Check here if your gross receipts are normally not more than $25,000 (see instruction B11). You do not have to file a completed return with IRS but should file a return without financial data if you were mailed a Form 990 Package (see instruction A). Some States may require a completed return.

☐ Check here if gross receipts are normally more than $25,000 and line 12 is $25,000 or less. Complete Parts I (except lines 13-15), III, IV, VI, and VII and only the indicated items in Parts II and V (see instruction I). If line 12 is more than $25,000, complete the entire return.

501(c)(3) organizations and 4947(a)(1) trusts must also complete and attach Schedule A (Form 990). (See instructions.)

Part I Statement of Support, Revenue, and Expenses and Changes in Fund Balances

These columns are optional—see instructions

	Line			(A) Total	(B) Unrestricted/ Expendable	(C) Restricted/ Nonexpendable
Support and Revenue	1	Contributions, gifts, grants, and similar amounts received:				
	a	Direct public support	72,361.			
	b	Indirect public support				
	c	Government grants				
	d	Total (add lines 1a through 1c) (attach schedule—see instructions)		72,361.		
	2	Program service revenue (from Part IV, line f)		26,810,139.		
	3	Membership dues and assessments		- 0 -		
	4	Interest on savings and temporary cash investments		75,722.		
	5	Dividends and interest from securities		317,641.		
	6a	Gross rents				
	b	Minus: rental expenses				
	c	Net rental income (loss)		- 0 -		
	7	Other investment income (Describe ▶ Funds Held by Trustee)		244,681.		
	8a	Gross amount from sale of assets other than inventory (Securities / Other)				
	b	Minus: cost or other basis and sales expenses				
	c	Gain (loss) (attach schedule)		- 0 -		
	9	Special fundraising events and activities (attach schedule—see instructions):				
	a	Gross revenue (not including $ of contributions reported on line 1a)				
	b	Minus: direct expenses				
	c	Net income (line 9a minus line 9b)		- 0 -		
	10a	Gross sales minus returns and allowances				
	b	Minus: cost of goods sold (attach schedule)				
	c	Gross profit (loss)		- 0 -		
	11	Other revenue (from Part IV, line g)		213,784.		
	12	Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8c, 9c, 10c, and 11)		27,734,328.		
Expenses	13	Program services (from line 44, column (B)) (see instructions)		25,809,269.		
	14	Management and general (from line 44, column (C)) (see instructions)		1,509,355.		
	15	Fundraising (from line 44, column (D)) (see instructions)		- 0 -		
	16	Payments to affiliates (attach schedule—see instructions)		- 0 -		
	17	Total expenses (add lines 16 and 44, column (A))		27,318,624.		
Fund Balances	18	Excess (deficit) for the year (subtract line 17 from line 12)		415,704.		
	19	Fund balances or net worth at beginning of year (from line 74, column (A))		10,144,546.		
	20	Other changes in fund balances or net worth (attach explanation)		[illegible]		

BEST AVAILABLE COPY

Part II Statement of Functional Expenses

All organizations must complete column (A). Columns (B), (C), and (D) are required for most section 501(c)(3) and (c)(4) organizations and 4947(a)(1) trusts but optional for others. (See instructions.)

Expenses — Do not include amounts reported on lines 6b, 8b, 9b, 10b, or 16 of Part I.	(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (attach schedule)	- 0 -	- 0 -		
23 Specific assistance to individuals	- 0 -	- 0 -		
24 Benefits paid to or for members	- 0 -	- 0 -		
25 Compensation of officers, directors, etc.	283,896.	44,315.	239,581.	
26 Other salaries and wages	8,523,329.	8,286,465.	236,864.	
27 Pension plan contributions	419,264.	396,624.	22,640.	
28 Other employee benefits	561,476.	531,156.	30,320.	
29 Payroll taxes	650,061.	614,958.	35,103.	
30 Professional fundraising fees	- 0 -			
31 Accounting fees	116,009.	- 0 -	116,009.	
32 Legal fees	50,454.	- 0 -	50,454.	
33 Supplies	431,129.	431,129.	- 0 -	
34 Telephone	119,700.	119,700.	- 0 -	
35 Postage and shipping	35,712.	17,856.	17,856.	
36 Occupancy	- 0 -	- 0 -	- 0 -	
37 Equipment rental and maintenance	832,253.	803,707.	28,546.	
38 Printing and publications	31,819.	- 0 -	31,819.	
39 Travel	27,582.	- 0 -	27,582.	
40 Conferences, conventions and meetings	- 0 -	- 0 -	- 0 -	
41 Interest	1,659,200.	1,659,200.	- 0 -	
42 Depreciation, depletion, etc. (attach schedule)	1,494,771.	1,494,771.	- 0 -	
43 Other expenses (itemize): a				
b See attached schedule	11,409,388.	11,409,388.	- 0 -	
c				
d Extraordinary Item - Loss on debt extinguishment	672,581.	- 0 -	672,581.	
e				
f				
44 Total functional expenses (add lines 22 through 43)	27,318,624.	25,809,269.	1,509,355.	- 0 -

Part III Statement of Program Services Rendered

List each program service title on lines a through d; for each, identify the service output(s) or product(s) and report the quantity provided. Enter the total expenses attributable to each program service and the amount of grants and allocations included in that total. (See instructions for Part III.)	Expenses (Optional for some organizations—see instructions)
a General Hospital - Medical services for inpatients and outpatients (Grants and allocations $)	25,809,269.
b (Grants and allocations $)	
c (Grants and allocations $)	
d (Grants and allocations $)	
e Other program service activities (attach schedule) (Grants and allocations $)	

[PRRB HEARING HUELSKAMP TESTIMONY]

* * * * *

[189] Q. Now who benefits from that type of a savings, Mr. Huelskamp?

A. The hospital benefits from that due to the reduced cash flow that we have to extend over a period of time. The patients of Guernsey Memorial Hospital [190] populous of the county benefit in a reduction of our hospital charges because we don't have to charge as much to cover those additional interest costs, the Medicare program, Medicaid program and other payers benefit from the standpoint of the reduced interest cost is not there to reimburse the hospital. So there is a reduction in their reimbursement to the Providers.

* * * * *

[194] A. Subsequent to the year 1985, the debt, the 1972 debt, the 1972 and '82 bond issues are not carried on the hospital's financial records at all nor are they included in the footnotes. In our 1985 financial statements—

Q. Is that Provider Exhibit 28?

A. Provider Exhibit Number 28 is the hospital's audited 1985 financial statements. And on those financial statements the balance sheet effect of the refunding is to remove the 1972 and '82 debt from our books and put the '85 bonds issue that year on the financial statements. On the income statement we show the loss on the debt extinguishment that was the item in question and on the statement of changes and financial position we see the old debt being removed and the new debt being placed onto the hospital's financial statements.

And as I said before in subsequent years after 1985, the '72 and the '82 issues are no longer presented on the financial statements.

Q. Are they footnoted anywhere in the financial statements after 1985?

A. No, they are not.

* * * * *

[196] Q. What were the components of the loss on the refinancing?

A. As Mr. Talbert had indicated in his opening statement and as indicated in the Intermediary's supplemental position paper, there are three components to the loss. The first component of approximately $700,000 is the write off of the unamortized bond discount and bond financing costs from the '72 and '82 bond issues.

Q. Okay, let's stop you there and ask you, can you go into a little bit more detail, what exactly are the unamortized costs? What are we talking about?

A. Those costs include the discount to the [197] underwriter for underwriting the '72 and the '82 issue, it would include bond counsel fees, legal fees, accountants fees, feasibility study fees, all of those costs related to the issuance of the '72 and the '82 bonds, those costs are prescribed by generally accepted accounting principles were amortized over the life of those respective costs.

Q. Now when were those costs actually paid?

A. Those costs were actually paid by the facility in 1972 and in 1982 as relate to those specific issues.

Q. So none of those are future costs, those are all past costs that the hospital incurred?

A. Those are past cash outlays that the hospital made at that point.

Q. What were the other components of the—

A. The second component of the composition of the loss that was taken is approximately $300,000 and that relates to the call premium for the 1982 bond issue. That call premium is to be exercised in 1992 under the original

1982 bond issue, the hospital had to fund approximately $300,000 to have funds sufficient to meet that call premium in 1992.

* * * * *

[199] THE WITNESS: The funds that were put into escrow to pay off the '72 and the '82 bond issues which was approximately $16 million placed into escrow, those funds earn interest over a period of time until all the '72 and '82 bonds are paid off. The interest earned on that escrow fund exceeds the interest expense paid on the '72 and '82 bond by approximately $300,000 and that in essence is a gain to the Provider which is netted against the two losses, the first and second components that I mentioned. Does that answer your question?

* * * * *

[201] Q. How does your treatment of this loss compare to the treatment that you would accord to other types of losses, for example sales depreciable asset?

A. In essence the accounting treatment is the same. If we had a depreciable asset on our books, let's say that we were depreciating over its estimated useful life, if we disposed of that asset prior to it being fully depreciated and would recognize a loss on that asset, that loss would be recognized all in the year of disposal of the asset rather than taking that loss and spreading it over the remaining usable life of what we had thought that asset would provide. This transaction is basically the same in that when the '72, the '82 bonds were originally put on the books, the bond financing and bond discount costs were being amortized over the life of the bonds. Now that those bonds no longer exist to the Provider, it is appropriate to take the remaining cost as an expense in the year that the bonds are retired.

* * * * *

[205] Q. Let me ask the question. If the total savings comparing the '85 bonds to the '72 and '82 bonds is $12,367,000, is it true that approximately $12 million of that savings will be realized in the year 2004 and later?

A. Yes.

* * * * *

[255] A. That's correct. Paragraph 3D is where the debtor is legally released from being the primary obligor under the debt which is the situation that we have incurred in the Guernsey Memorial Hospital situation.

* * * * *

[LANGENFIELD TESTIMONY]

[260] Q. Applying that analogy to the bond issues, how do they—taking the knowledge of the CT scanner, how does that affect the losses of the first bond issue which are the subject of the '72 and '82 bond issues?

A. I think they're very much the same. In 1985, in our situation here the Provider incurred a loss relating to the 1972 and 1982 bond issues and in looking at that transaction in essence, the hospital incurred interest costs over the past period of time from 1972 to 1985. And it estimated a usable life for 1972 issue costs and the 1982 issue costs based upon the originally intended maturity of those bonds. In reality in 1985 the hospital relieved itself of any obligation of the 1972 and 1982 bonds and recognized a loss to their—I don't want to belabor too much the components but various components, all of which relate to the 1972 and 1982 bonds and at least in theory and to certain extent in practice I believe the debtor, in this case the hospital, had it known it was going to relieve itself of those obligations would have amortized those costs over a shorter period of time than the schedule of amortization

that was used and/or an alternative way of looking at this is that the hospital could have incurred a higher interest cost on an annual basis from 1972 to 1985 and with that higher interest cost they have been [261] able to reduce or eliminate the issue costs that were paid out in 1972 and 1982, may have been able to reduce, eliminate, shorten, influence in some fashion the call premium provisions and arguably if the interest rate were set high enough could have been a high enough rate to enable for example the investment banker to sell the bonds at a sufficient premium that the investment banker could pay his sales commissions, pay other issues costs out of the premium provided from the bond holders. And there would in that situation not be cost to be amortized.

So I think the analogy works fairly well that in both cases we have assets which are established, a life is established for at the onset and it's everybody's best estimate of what that life is going to be subject to events show those estimates to have been inaccurate and in approaching the case of the depreciable asset and the GAAP approach, I believe common sense approach as it relates to a refinancing advanced refunding transaction is to recognize that as having happened over the past period and the way to deal with that is to recognize that in the period of that transaction.

Q. Now just continuing our CT scanner analogy, isn't what the Intermediary is saying is even though you [262] sold the CT scanner in your three and incurred a loss in your three, you have to continue to depreciate that asset over its remaining useful life regardless of the fact that you don't own it anymore?

A. That's my understanding of the Intermediary's argument.

Q. Does that make any sense from an accounting standpoint?

A. No, I don't believe so.

* * * * *

[282] The Witness: What this section does as Mr. Talbert indicated is implicitly recognize the gain or loss over some future period and it does that by in essence leaving the interest expense and the unamortized financing costs on the books and also placing the escrow funds on the books. And our point is that the hospital is not a party to any of those transactions, the debt [283] has been diffused and so to repeat, has been released from and is no longer part of the debt transaction.

* * * * *

[284] Q. How would Section 233 treat the losses associated with the call of the 1972 bonds in 1985?

A. It would have treated the call premium itself as a reimbursable cost in the 1985 cost report as I understand it and also would have included the loss reflected in 1985 based upon this PRM section, would have included any unamortized financing cost related to the 1972 issue.

Q. Is that treatment inconsistent with what they are in fact proposing to do on the out of adjustments for the hospital?

A. It's inconsistent and it points up the arbitrary nature of this section in that it continues to draw upon an activity that happens between the escrow and the bond holders in terms of the timing of that issue and it shows how decisions that were made in 1972 as to what interest rates and call premiums and issue costs and so forth, how the bond issue was structured, how several changes and those kind of decisions can influence in a decision in 1985 on what was the best economic approach to this, can influence the timing of the recognition of that loss.

* * * * *

[285] And I would simply point out that there are two items that might help eliminate that analysis, one is the fact that the hospital in this case incurred costs in excess of $700,000 that it paid out of its pocket, they have to finance those but they were true costs just the same that were incurred by the hospital in 1972 and 1982. And those costs incurred in 1972 and 1982, in 1985 in essence is the time period in which the hospital would be recognizing the remaining previously recognized outlay of those expenditures.

* * * * *

[289] A. If I could answer what my understanding of GAAP and defer for a monent discussion of what the Intermediary's argument here is because I'm not sure I understand it. What these—represent are discussion that took place in 1972 regarding different practices that were in place at that particular point in time. And in its conclusion in 1972, the APB and statement number in opinion number 26 reached a conclusion that has been generally accepted accounting principles ever since and that is to recognize the gain or loss currently in income. I believe the Intermediary in this position is implying whether intended or not, there's an implication here that there are options and there are not for generally accepted accounting principles and—

Q. That's been the case since 1972?

A. That's correct.

* * * * *

[293] A. Yes. The hospital did incur "out of pocket" costs both in 1972 and in 1982 which is currently claiming the unamortized portion of those to be reimbursed to it. It also occurred costs in 1985 relating to the 1985 issue. It so happened that the hospital financed those issue costs from

borrowing but that should not change, that again seems to introduce a cash basis type of argument to determining the amount and the timing as to a loss that has been incurred and the hospital could have attributed those funds as opposed to financing them and therefore that's the Intermediary's more narrow definition of "out of pocket" type of expenses.

The cost again that has been incurred and no distinction should be drawn, there is no distinction drawn in the aggregate between the cost of patient care between GAAP and Medicare cost of patient care and generally accepted accounting principles and there should be no difference in treatment as it relates to the current period 1985. Again, the loss that's been incurred is one that's been incurred over the period 1972 through 1985.

* * * * *

[303] A. That's right, and the purpose of these and the purpose of the American Institute of CPAs Code of Professional Ethics rule number 203 there specifies that an auditor should not express an unqualified opinion if financial statements contain the material of departure from such pronouncements. And that rule defined such pronouncements as those statements by the Financial Accounting Standards Board.

Q. So the APB and FASB, they reflect the accounting profession's decision on matters of which might be reasonable disagreement among accountants but in order to get uniformity in the presentation of financial statements, once the controversy is identified you've got to say do it this way all the time or do it that way all the time and that's why something like APB 26 would be issued in the first place?

A. I believe that is a fair statement.

* * * * *

[321] Q. Now let's go to Section 223, why is that not appropriated, in other words why does not that result in payments of services rendered to Medicare beneficiaries in the year in which those services are rendered?

A. Because Section 233.3 is tying the recognition of the loss to future periods in treating the Provider as if the refunded debt was still on its books and treating it as if the hospital Provider was still a party to those two—to the refunded debt issues. And I'm going to argue arbitrarily tying that to the activity within an escrow account to which the hospital is not a party and forcing the Provider to continue to amortize unamortized discounts and premiums on the old debt while at the same time the provider has incurred additional debt issue costs on the refunding debt and is amortizing those over the future. It's forcing recognition into the future for something that had happened in which the Provider cannot reverse in the current period.

* * * * *

[322] Q. Section 233.3 states, B-3, "Call premiums are allowable in periods older than the refunded debts receive the principal payment." Is that true, does that make sense, I mean-I used the term, it made sense, I mean but does that reflect the reality of payments and the benefit of the hospital?

A. I don't believe it does because that's simply a function of the market conditions, for example in 1982, let's say that a call provision in 1987 for example was marketable could be sold to investors. In 1985 when this transaction happened, this issue would have been configured in such a way that it would be assumed the expert trustee would call them all in 1987 and it would result in a different answer then resolved in this situation. And yet it's again time to a bond issue for which the hospital is now claiming.

* * * * *

[334] A. I would paraphrase Charlotte Memorial to say that a Provider's decision to advance refund by placing X dollars into an escrow account triggers a present obligation on the part of the Provider to incur costs that are the current period loss on an advanced refunding. And that the fact that the bond holder receives the monies, its actual receipt of the money, receipt of the future does not detract from the fact that the hospital, the provider has already incurred a cost in the current period.

* * * * *

[337] A. And my point there only was that on this particular transaction I see no distinction between the cost of running a business and the cost of patient care. I think it's agreed that the debt is patient care related and therefore cost relating to a patient care related and if that is a critical part of the scrutiny, the focus of the scrutiny in determining whether a departure is allowed or permitted, I would argue that PRM 233.3 does not meet that test.

* * * * *

[338] Q. What weight does this carry in accounting, the descents?

A. I would say very little. I think a couple points there, one is there were three descending votes out of 18 so there was a pretty strong majority voting in favor of this pronouncements and secondly, once this [339] is approved in this fashion, that becomes part of Generally Accepted Accounting Principles in and of itself and on its own merits. The fact that there was a negative vote would not give a practicing accountant the ability to issue or properly issue a financial statement that departed from this statement. Even though there's a descent, he would still be bound by this in issuing a financial statement.

* * * * *

[ANDREWS TESTIMONY]

* * * * *

[359] Q. Well I agree with you that had they not refunded but given the fact that they didn't refund, I'm having a problem saying is this a cost incurred by the Provider, I don't think it is. And if you have a different—if you disagree with me, I'd like to know the basis of your saying it was a cost incurred by the Provider in subsequent years given that it was refinanced, how could it be incurred by them since they had no liability for it, how could it be incurred by [360] them. I'd like to understand your position?

A. As far as looking at the status, the Provider, they may not have the legal responsibility for the debt however, there's still the responsibility that the debt still exists and it's monies that were benefiting future periods instead of being patient care periods, you know I know they're not making an actual cash payment but they've paid it off with the proceeds of the 1985 bonds, so there's still an expense of the future period.

Q. I agree to the extent of the future period but to who is it an expense, of the Provider in the future period or is it an expense of the trustee?

A. The trustee is going to be making the payment but indirectly it would have been an expense of the Provider.

Q. Whose financial statements would the expense appear on?

A. The expense is not going to appear on the financial statement.

Q. It would appear on the financial statements of the trustee would it not?

A. Well yes.

Q. Is it a cost incurred by the trustee?

A. The trustee would be making the actual payments.

[361] Q. It was a cost incurred by the trustee in addition to making the payment, it was a cost incurred by the trust?

A. Yes.

* * * * *

BEFORE THE
PROVIDER REIMBURSEMENT REVIEW BOARD
BALTIMORE, MARYLAND

Case No. 88-1092
FYE: December 31, 1984
and
December 31, 1985

GUERNSEY MEMORIAL HOSPITAL
PROVIDER NO. 36-0203, PROVIDER

v.

BLUE CROSS AND BLUE SHIELD ASSOCIATION/COMMUNITY
MUTUAL INSURANCE COMPANY, FISCAL INTERMEDIARY

STIPULATION OF FACTS

The Provider, Guernsey Memorial Hospital, and the Fiscal Intermediary, Blue Cross and Blue Shield Association and Community Mutual Insurance Company, hereby agree and stipulate as follows:

1. On February 1, 1985, the Provider advance refunded 1972 and 1982 hospital improvement mortgage revenue bonds at a loss in the amount of $672,581.00 (the "refinancing loss").

2. In its cost report for the fiscal year ending December 31, 1985, the Provider claimed the full loss on refinancing as a reimburseable cost.

3. In its Notice of Program Reimbursement for the fiscal year ending December 31, 1985 (the "NPR"), the Intermediary disallowed the full refinancing loss and required that the same be amortized over the life of the refunded bonds.

4. The Intermediary's treatment of the refinancing loss in the NPR is different from the recognition of such a loss as prescribed by generally accepted accounting principles (GAAP).

This Stipulation of Facts may be executed in multiple counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

GUERNSEY MEMORIAL HOSPITAL

By: /s/ Scott Taebel
SCOTT W. TAEBEL
Its: Attorney
Date: 8/16/1989

BLUE CROSS AND BLUE SHIELD ASSOCIATION

By: /s/ Bernard M. Talbert
Title: Assoc. Gen. Counsel
Date: 8/17/89

COMMUNITY MUTUAL INSURANCE COMPANY

By: ______________________
Title: ______________________
Date: ______________________

[EXHIBIT P-20]

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 76

Extinguishment of Debt
an amendment of APB Opinion No. 26

November 1983

Financial Accounting Standards Board

Summary

This Statement provides guidance to debtors as to when debt should be considered to be extinguished for financial reporting purposes. This project was undertaken in response to requests to clarify the circumstances that constitute extinguishment and because the Board learned of growing diversity in practice.

This Statement specifies that debt is to be considered extinguished if the debtor is relieved of primary liability for the debt by the creditor and it is probable that the debtor will not be required to make future payments as guarantor of the debt. This Statement also specifies that, even though the creditor does not relieve the debtor of its primary obligation, debt is to be considered extinguished if (a) the debtor irrevocably places cash or other essentially risk-free monetary assets in a trust solely for satisfying that debt and (b) the possibility that the debtor will be required to make further payments is remote. This Statement amends APB Opinion No. 26, *Early Extinguishment of Debt*, to make it apply to all extinguishments of debt, whether early or not, other than those currently exempted from its scope, such as debt conversions and troubled debt restructurings.

This Statement is applicable to transactions occurring after December 31, 1983, with earlier application encouraged in annual financial statements that have not been previously issued. This Statement also permits the restatement of previously issued financial statements to apply this Statement retroactively.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 76

Extinguishment of Debt
an amendment of APB Opinion No. 26

November 1983

Financial Accounting Standards Board
of the Financial Accounting Foundation
High Ridge Park, P.O. Box 3821,
Stamford, Connecticut 06905-0821

Statement of Financial Accounting Standards No. 76

Extinguishment of Debt

an amendment of APB Opinion No. 26

November 1983

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Statement of Financial Accounting Standards No. 76
Extinguishment of Debt
an amendment of APB Opinion No. 26
November 1983

INTRODUCTION AND SCOPE

1. This Statement addresses what shall be considered to be an extinguishment of debt, which in turn affects when the debtor recognizes a gain or loss on extinguishment. This Statement does not address the accounting for redeemable preferred stock. The circumstances for an extinguishment of debt described in paragraphs 3(b) and 3(c) do not apply to debt that is convertible into the debtor's equity securities. Furthermore, the circumstances for an extinguishment of debt described in paragraph 3(c) apply only to debt with specified maturities and fixed payment schedules; consequently, those circumstances do not apply to debt with variable terms that do not permit advance determination of debt service requirements, such as debt with a floating interest rate.

2. Because extinguishment of debt currently is addressed by APB Opinion No. 26, *Early Extinguishment of Debt,* that Opinion is amended to refer to the standards in this Statement for guidance about what shall be considered to be an extinguishment of debt. This Statement also amends that Opinion to make it apply to all extinguishments of debt, whether early or not, other than those currently exempted from its scope, such as debt conversions as described in that Opinion and troubled debt restructurings as described in FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings.*

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Circumstances for an Extinguishment of Debt

3. A debtor shall consider debt to be extinguished for financial reporting purposes in the following circumstances:

a. The debtor pays the creditor and is relieved of all its obligations with respect to the debt. This includes the debtor's reacquisition of its outstanding debt securities in the public securities markets, regardless of whether the securities are cancelled or held as so-called treasury bonds.

b. The debtor is legally released[1] from being the primary obligor under the debt either judicially or by the creditor and it is probable[2] that the debtor will not be required to make future payments with respect to that debt under any guarantees.

c. The debtor irrevocably places cash or other assets in a trust to be used solely for satisfying scheduled payments of both interest and principal of a specific obligation and the possibility that the debtor will be required to make future payments with respect to that debt is remote. In this circumstance, debt is extinguished even though the debtor is not legally released from being the primary obligor under the debt obligation.

---

[1] If nonrecourse debt (such as certain mortgages) is assumed by a third party in conjunction with the sale of an asset that serves as the sole collateral for that debt, the sale and related assumption effectively accomplish a legal release of the seller/debtor for purposes of applying this Statement.

[2] *Probable* is used here, consistent with its use in FASB Statement No. 5, *Accounting for Contingencies,* to mean that it is likely that no payments will be required.

Restrictions on the Nature of Assets in Trust

4. The following requirements regarding the nature of the assets held by the trust shall be met to effect an extinguishment of debt under paragraph 3(c):

a. The trust shall be restricted to owning only monetary assets[3] that are *essentially risk free* as to the amount, timing, and collection of interest and principal. The monetary assets shall be denominated in the currency in which the debt is payable. For debt denominated in U.S. dollars, essentially risk-free monetary assets shall be limited to:

   (1) Direct obligations of the U.S. government

   (2) Obligations guaranteed by the U.S. government

   (3) Securities that are backed by U.S. government obligations as collateral under an arrangement by which the interest and principal payments on the collateral generally flow immediately through to the holder of the security.

   However, some securities described in the previous sentence can be paid prior to scheduled maturity and so are not essentially risk free as to the *timing* of the collection of interest and principal; thus, they do not qualify for ownership by the trust.

b. The monetary assets held by the trust shall provide cash flows (from interest and maturity of those assets) that approximately coincide, as to timing and amount, with the scheduled interest and principal payments on the debt that is being extinguished.

[3] A monetary asset is money or a claim to receive a sum of money that is fixed or determinable without reference to future prices of specific goods or services.

Costs Related to Placing Assets in Trust

5. If, in conjunction with placing assets in trust to effect an extinguishment of debt, it is expected that trust assets will be used to pay related costs, such as trustee fees, as well as to satisfy scheduled interest and principal payments of a specific debt, those costs shall be considered in determining the amount of funds required by the trust. On the other hand, if the debtor incurs an obligation to pay any related costs, the debtor shall accrue a liability for those probable future payments in the period that the debt is recognized as extinguished.

Disclosures

6. If debt is considered to be extinguished under the provisions of paragraph 3(c), a general description of the transaction and the amount of debt that is considered extinguished at the end of the period shall be disclosed so long as that debt remains outstanding.

Amendments to Other Pronouncements

7. Paragraph 2 of Opinion 26, which addresses the applicability of that Opinion, is superseded and replaced by the following:

> *Applicability.* This Opinion applies to all extinguishments of debt, whether early or not, except debt that is extinguished through a troubled debt restructuring and debt that is converted to equity securities of the debtor pursuant to conversion privileges provided in terms of the debt at issuance. It supersedes Chapter 15 of ARB No. 43 and paragraph 19 of APB Opinion No. 6. However, it does not alter the accounting for convertible debt securities described in APB Opinion No. 14.

8. Paragraph 3(a) of Opinion 26, which defines *early extinguishment*, is superseded and replaced by the following:

a. *Extinguishment of debt*. FASB Statement No. 76, *Extinguishment of Debt*, defines transactions that the debtor shall recognize as an extinguishment of debt.

9. The following terms and phrases are deleted from Opinion 26 as indicated:

a. In paragraph 3(c), the term *early*

b. In paragraph 19, the phrase *before scheduled maturities*

c. In paragraph 21, the phrase *before maturity*.

10. The last sentence of footnote 1 of FASB Statement No. 22, *Changes in the Provisions of Lease Agreements Resulting from Refundings of Tax-Exempt Debt*, which refers to AICPA Statement of Position (SOP) 78-5, *Accounting for Advance Refundings of Tax-Exempt Debt*, is superseded and replaced by the following:

> FASB Statement No. 76, *Extinguishment of Debt*, provides criteria for determining whether the advance refunding should be recognized as an extinguishment of the existing debt at the date of the advance refunding.

11. The reference to SOP 78-5, *Accounting for Advance Refundings of Tax-Exempt Debt*, is deleted from Appendix A of FASB Statement No. 32, *Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters*.

Effective Date and Transition

12. This Statement shall be effective for transactions entered into after December 31, 1983. Earlier application of this Statement is encouraged for transactions in fiscal years for which annual financial statements have not previously been issued. Furthermore, retroactive application of this Statement to transactions occurring during fiscal years for which annual financial statements have previously been issued is permitted, in which case the effects on restated per share amounts of prior years shall be disclosed.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the affirmative votes of four members of the Financial Accounting Standards Board. Messrs. Kirk, March, and Mosso dissented.

Messrs. Kirk, March, and Mosso dissent from this Statement because they do not believe that extinguishment of debt accounting and resultant gain or loss recognition should be extended to situations wherein the "debtor is not legally released from being the primary obligor under the debt obligation." (Refer to paragraph 3(c).) They believe such accounting should be limited to situations described in paragraphs 3(a) and 3(b), which are more consistent with both present practice and the concept in paragraph 143 of FASB Concepts Statement No. 3, *Elements of Financial Statements of Business Enterprises*, that "a liability once incurred by an enterprise remains a liability until it is satisfied in another transaction or other event or circumstance affecting the enterprise." In their opinion, the setting aside of assets in trust does not, in and of itself, constitute either the disposition of assets with potential

gain or loss recognition or the satisfaction of a liability with potential gain or loss recognition. Though dedicated to a single purpose, assets in the trust continue to be assets (that is, probable future economic benefits) of the debtor until applied to payment of the debt. Likewise, the liability continues to be a liability of the original debtor until satisfied by payment or by agreement of the creditor that the debtor is no longer the primary obligor. Dedicating the assets might ensure that the debt is serviced in timely fashion, but that event alone just matches up cash flows; it does not satisfy, eliminate, or extinguish the obligation. For a debt to be satisfied, the creditor must be satisfied.

Members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*
Frank E. Block
Victor H. Brown
John W. March
David Mosso
Robert T. Sprouse
Ralph E. Walters

[EXHIBIT P-22]

ESCROW AGREEMENT
among
CITY OF CAMBRIDGE, OHIO,
GUERNSEY MEMORIAL HOSPITAL
and
BANCOHIO NATIONAL BANK

THIS ESCROW AGREEMENT dated as of February 1, 1985 (the "Agreement"), is made by and among the City of Cambridge, Ohio (the "Issuer"), a municipal corporation and political subdivision in and of the State of Ohio and duly organized and validly existing under the laws of the State, Guernsey Memorial Hospital (the "Hospital"), a nonprofit hospital agency as defined in Section 140.01, Ohio Revised Code, and BancOhio National Bank ("BancOhio"), a national banking association duly organized and validly existing under the laws of the United States and duly authorized to exercise corporate trust power under the laws of the State of Ohio;

W I T N E S S E T H :

WHEREAS, the Issuer has authorized, sold and delivered its $7,600,000 Hospital Improvement First Mortgage Revenue Bonds, dated as of January 1, 1972, and its $10,410,000 Hospital Improvement Mortgage Revenue Bonds, Series 1982 (Guernsey Memorial Hospital Project), dated as of October 1, 1982 (collectively, the "Refunded Bonds"), for the purpose of acquiring certain interests in real and personal property and constructing, improving, furnishing and equipping real and personal property comprising Hospital Facilities (the "Original Project"), as defined in Section 140.01(E), Ohio Revised Code, to be leased to and operated by the Hospital; and

WHEREAS, the Refunded Bonds were issued under and are secured by the Indenture of Mortgage, dated as of January 1, 1972, as supplemented and amended by the Supplemental Indenture of Mortgage, dated as of October 1, 1982 (collectively, the "Original Indenture"), both between the Issuer and BancOhio, as trustee (in its capacity as such, the "Escrow Trustee"); and

WHEREAS, the Issuer, at the request of the Hospital, has authorized, sold and delivered its $15,375,000 Hospital Improvement Revenue Refunding Bonds, Series 1985 (Guernsey Memorial Hospital Project), dated as of February 1, 1985 (the "Refunding Bonds"), for the purpose of advance refunding the Refunded Bonds; and

WHEREAS, the Refunding Bonds are issued under and secured by a Trust Indenture (the "Refunding Indenture") between the Issuer and BancOhio, as trustee (in its capacity as such, the "Refunding Trustee"), dated as of February 1, 1985; and

WHEREAS, the Hospital, as lessee, and the Issuer, as lessor, have entered into a Lease, dated as of February 1, 1985 (the "Lease"), pursuant to which the Issuer has leased certain hospital facilities and the site thereof to the Hospital for operation by the Hospital and pursuant to which the Hospital is obligated to make rental payments to the Issuer sufficient to pay the principal of and interest and any premium on the Refunding Bonds when and as the same become due and payable; and

WHEREAS, it is the intent of this Agreement to provide for the application of the proceeds of the sale of the Refunding Bonds, in such manner as to cause the Original Indenture to be released and discharged pursuant to the terms of Article VIII thereof;

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained herein, and in order to provide for the payment and discharge of the Refunded

Bonds and coupons appertaining thereto and to release and discharge the Original Indenture, and to better provide for the health and welfare of the residents of the Issuer by enhancing the economy of Hospital Facilities and the services provided thereby, the parties hereto covenant, agree and bind themselves as follows:

Section 1. In accordance with the provisions of Article VIII of the Original Indenture, there is hereby established with the Escrow Trustee and ordered maintained in a separate deposit account (except when invested as hereinafter provided) a trust fund to be designated "Guernsey Memorial Hospital Refunded Bond Escrow Fund" (the "Escrow Fund"). The Escrow Fund shall be in the custody of the Escrow Trustee and, together with the earnings thereon and investments therein, shall be held in trust for the holders of the Refunded Bonds and shall be used and applied for the payment of the principal of and interest on the Refunded Bonds as provided herein. The Escrow Trustee shall establish within the Escrow Fund two accounts, one account to be designated "Account A" ("Account A") and the second to be designated "Account B" ("Account B").

Section 2. The Refunding Trustee shall deposit into the Administrative Expense Fund for the Refunding Bonds, as defined in and established under the Refunding Indenture, the portion of the proceeds of the Refunding Bonds to be deposited therein as set forth in the Refunding Indenture. The balance of the proceeds of the Refunding Bonds, together with other available funds of the Issuer as provided by the Refunding Indenture and as described in the following paragraph, shall forthwith be delivered to the Escrow Trustee for deposit in the Escrow Fund and shall be immediately utilized by the Escrow Trustee to purchase the aggregate principal amount of direct obligations of the United States of America identified in Exhibit A

hereto. All proceeds of the Refunding Bonds deposited into the Escrow Fund shall be credited to Account A.

The Escrow Trustee shall deposit into Account B of the Escrow Fund all moneys in the Replacement and Improvement Fund for the Refunded Bonds (less any amounts required for the Debt Service Reserve Fund as defined in the Refunding Indenture), the Contingency Reserve Fund for the Refunded Bonds and certain moneys in the Debt Service Reserve Fund for the Refunded Bonds (to the extent not deposited in the Debt Service Reserve Fund as defined in the Refunding Indenture), all as defined in and established under the Original Indenture. The Escrow Trustee shall, to the extent such moneys are not already so invested, immediately utilize such moneys described in the proceeding instance to purchase direct obligations of the United States of America as described in the preceding paragraph.

Section 3. The Issuer has heretofore found and determined that such investments required pursuant to Section 2 of this Agreement are advantageous in yield and maturity date in order to make available the necessary moneys to provide for the payment of principal of, redemption premium on and interest on the Refunded Bonds pursuant to Article VIII of the Original Indenture, to release and discharge the Original Indenture and to meet the applicable requirements of the regulations of the United States Treasury Department adopted pursuant to Section 103(c) of the Internal Revenue Code of 1954, as amended. If at any time any moneys in the Escrow Fund which have been derived from investment of moneys in the Escrow Fund shall not be required for the payment of principal of, redemption premium on or interest on the Refunded Bonds, the Escrow Trustee shall reinvest such moneys in United States Treasury Obligations, State and Local Government Series bearing interest at a rate of 0% in minimum

amounts of $1000 and in multiples of $100 above such amount for maturity six months later.

Section 4. The Escrow Fund, including all investments thereof and the income derived from said investment, shall be held by the Escrow Trustee and shall be used to (i) pay the interest on the Refunded Bonds, dated as of January 1, 1972, which interest is due and payable on each June 1 and December 1, commencing June 1, 1985, through and including December 1, 1996, the date of their final maturity, (ii) to pay the interest on the Refunded Bonds, dated as of October 1, 1982, which interest is due and payable on each June 1 and December 1, commencing June 1, 1985, through and including December 1, 1992, the date of optional redemption, (iii) to retire on their stated maturity date the Refunded Bonds, dated as of January 1, 1972, and (iv) to retire on December 1, 1992, pursuant to call for redemption, the Refunded Bonds dated as of October 1, 1982, including any premium payable in connection with such retirement by redemption, and the interest falling due on such date. Moneys in the Escrow Fund shall, and the Escrow Trustee agrees such moneys will, be used for the purpose as described above and the deposit of such moneys in the Escrow Fund shall be irrevocable. The Escrow Trustee further agrees that it will not surrender or otherwise attempt to redeem or otherwise negotiate the investments in the Escrow Fund except as they shall come due as shown on said attached Exhibit A. Subject to the foregoing requirements for the use of the Escrow Fund and the moneys and investments therein and except as otherwise provided herein, the Issuer and the Hospital covenant and agree that the Escrow Trustee shall have full and complete control and authority over and with respect to the Escrow Fund and moneys and investments therein, and that the Issuer and the Hospital shall not exercise any

control or authority over and with respect to the Escrow Fund and the moneys and investments therein.

Section 5. The Escrow Trustee acknowledges that it has received (i) a certificate of an independent public accounting firm of national reputation certifying that the moneys and investments in the Escrow Fund satisfy the requirements of Article VIII of the Original Indenture and (ii) an opinion of Squire, Sanders & Dempsey, Bond Counsel, stating that the conditions precedent to the release and discharge of the Original Indenture have been complied with. The Escrow Trustee shall execute and deliver to the Issuer and the Hospital such instruments as are requested of it to evidence the discharge and release of the lien of the Original Indenture.

Section 6. The Issuer hereby acknowledges receipt of notice of the termination of the Lease between the Issuer and the Hospital, dated as of January 1, 1972, as supplemented and amended by the Supplemental Lease, dated as of October 1, 1982 (collectively, the "Original Lease"), and relating to the Refunded Bonds, as required to be given by the Hospital pursuant to Section 10.1 of said Original Lease. The Issuer also acknowledges receipt of notice of the Hospital's exercise of its option to purchase the Original Project pursuant to Section 10.3 of the Original Lease.

Section 7. The Escrow Trustee hereby represents that it has caused notice of the redemption of the Refunded Bonds, dated as of October 1, 1982, to be published in accordance with the requirements of the Original Indenture.

Section 8. The Escrow Trustee is hereby authorized and directed to immediately publish notice of the defeasance of the Original Indenture and the deposit of the direct obligations of the United States of America in the Escrow Fund.

Section 9. The trust and fiduciary relationship created by this Agreement is irrevocable and intended for the benefit of the holders from time to time of the Refunded Bonds. The moneys realized from the interest on and principal of the investments in the Escrow Fund are hereby dedicated to and pledged for the payment of the principal of and interest on the Refunded Bonds. Such moneys are subject to the lien of such pledge, which shall be valid and binding against all parties having claims of any kind against the Issuer, the Hospital or BancOhio as the Escrow Trustee and the Refunding Trustee, and which pledge shall constitute a perfected security interest, and such moneys and investments shall be used for the purposes stated herein. The lien and security interest granted pursuant to this Agreement shall take effect on the date of delivery of this Agreement and shall remain in full force and effect on the date of delivery of this Agreement and shall remain in full force and effect until the terms of this Agreement have been satisfied and the moneys and the investments in the Escrow Fund have been applied as contemplated herein.

Section 10. In the event that the Escrow Trustee determines that there are moneys in the Escrow Fund in excess of the amounts required to provide for payment of the interest on and principal of the Refunded Bonds, the Escrow Trustee shall promptly notify the Hospital in writing of such excess and, upon request by the Hospital, shall deliver such excess moneys to the Hospital. After payment in full of all interest on and the principal of the Refunded Bonds in accordance with the Original Indenture and of any fees or expenses of the Escrow Trustee not previously paid or provided for, the Escrow Trustee shall deliver all remaining moneys in the Escrow Fund to the Hospital. All moneys delivered by the Escrow Trustee to the Hospital pursuant to this Section 10 shall no longer be

subject to the lien and security interest granted in Section 9 of this Agreement.

Section 11. The Hospital hereby agrees to pay to the Escrow Trustee all fees and charges of the Escrow Trustee for its services under this Agreement and the Original Indenture, in the same manner and to the same extent that such fees and charges would have been payable under the Original Indenture. The Escrow Trustee hereby acknowledges that the above agreement by the Hospital to pay the Escrow Trustee's fees and charges is satisfactory to it in accordance with the provisions of the Original Indenture for the release and discharge thereof.

Section 12. If any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 13. This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Hospital, BancOhio as the Escrow Trustee and the Refunding Trustee, and the holders of the Refunded Bonds, and their respective successors and assigns, all subject to the provisions of this Agreement.

This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Issuer, the Hospital, the Escrow Trustee and the Refunding Trustee, have caused this Agreement to be executed in their respective names and capacities by their duly authorized officers, all as of the day and the year first written above.

CITY OF CAMBRIDGE, OHIO, Issuer

By: /s/ C. Charles Schaub
Mayor

And By: /s/ Donna Gander
Auditor

GUERNSEY MEMORIAL HOSPITAL

By: /s/ [Signature Illegible]
President

And By: /s/ Mrs. James (Mary K.) Cole
Secretary

BANCOHIO NATIONAL BANK, as Escrow Trustee and Refunding Trustee

By: /s/ C. Joseph Serle
Title: Vice President

And By: /s/ Timothy Kalys
Title: Assistant Vice President

The form and correctness of the within instrument are hereby approved:

By: /s/ Gerald L. Jones
Director of Law

EXHIBIT A

Direct obligations of the United States of America held in the Escrow Fund:

Account A

United States Treasury Certificates of Indebtedness—State and Local Government Series

Amount	Interest Rate	Maturity Date
$36,900	6.894%	6/1/85

United States Treasury Notes—State and Local Government Series

Amount	Interest Rate	Maturity Date
$271,600	9.497%	12/1/86
308,300	10.063	12/1/87
128,000	10.681	12/1/90
2,700	10.751	06/1/91
467,700	10.821	12/1/91
11,800	10.861	06/1/92
11,224,700	10.900	12/1/92
457,800	10.941	12/1/93
510,700	10.970	12/1/94

United States Treasury Bonds—State and Local Government Series

Amount	Interest Rate	Maturity Date
$566,900	10.991%	12/1/95
626,600	11.010	12/1/96

Account B

Amount	Interest Rate	Maturity Date	Description of Obligation
$600,000	10.75%	11/15/89	United States Treasury Notes
472,000	9.875	05/15/88	United States Treasury Notes
325,000	(1)	05/23/85	United States Treasury Bills

(1) Bought at purchase price of $316,075.76.

[EXHIBIT P-23]

Filed with Guernsey County Recorder on 2/27/85 at 8:52 a.m., Lease Vol. 100, p. 1 (cross-referenced in Mortgage Vol. 11, p. 167)

TERMINATION OF LEASE AND SUPPLEMENTAL LEASE, RELEASE AND DISCHARGE OF INDENTURE OF MORTGAGE AND SUPPLEMENTAL INDENTURE OF MORTGAGE AND RELEASE OF GUARANTY

KNOW ALL MEN BY THESE PRESENTS THAT:

WHEREAS, in connection with the issuance by the City of Cambridge, Ohio (the "Issuer") of its $7,600,000 Hospital Improvement First Mortgage Revenue Bonds (the "1972 Bonds"), the Issuer and Guernsey Memorial Hospital (the "Lessee") entered into the Lease (the "Original Lease"), dated as of January 1, 1972, which Original Lease was recorded in the Lease Records (the "Lease Records") of the Recorder of Guernsey County, Ohio as Instrument No. 23073 at Volume 69, Page 1;

WHEREAS, in connection with the issuance by the Issuer of its $10,410,000 Hospital Improvement Mortgage Revenue Bonds, Series 1982 (Guernsey Memorial Hospital Project) (the "1982 Bonds"), the Issuer and the Lessee entered into the Supplemental Lease (the "Supplemental Lease"), dated as of October 1, 1982, which Supplemental Lease was recorded in the Lease Records as Instrument No. 86196 at Volume 94, Page 705;

WHEREAS, to secure the 1972 Bonds, the Issuer and BancOhio National Bank (formerly known as ~~The Ohio~~ National Bank of Columbus) (the "Trustee") entered into the Indenture of Mortgage (the "Original Indenture"), dated as of January 1, 1972, which Original Indenture was recorded in the Mortgage Records (the "Mortgage Records") of the Recorder of Guernsey County, Ohio as Instrument No. 23074 at Volume 237, Page 270;

WHEREAS, to secure the 1982 Bonds, the Issuer and the Trustee entered into the Supplemental Indenture of Mortgage (the "Supplemental Indenture"), dated as of October 1, 1982, which Supplemental Indenture was recorded in the Mortgage Records as Instrument No. 86197 at Volume 297, Page 524;

WHEREAS, to further secure the 1982 Bonds, the Hospital and the Trustee entered into the Guaranty Agreement (the "Guaranty"), dated as of October 1, 1982, whereby the Hospital guaranteed the full and prompt payment of the principal of and premium, if any, and interest on the 1982 Bonds when due;

WHEREAS, provision has been made under the applicable provisions of the Original Indenture for the Trustee to hold, in trust and irrevocably committed to the payment and discharge of all of the 1972 Bonds and the 1982 Bonds, direct obligations of the United States of America certified by an independent accounting firm of national reputation to be of such maturities and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, be sufficient, together with any money held by the Trustee for such purpose, for the payment in accordance with the terms of the 1972 Bonds and the 1982 Bonds, of the principal of and interest and premium, if any, on the 1972 Bonds and the 1982 Bonds such that the 1972 Bonds and the 1982 Bonds, in accordance with Section 8.02 of the Original Indenture, shall be deemed to have paid and discharged; and

WHEREAS, the conditions under which (i) the Original Lease may be terminated, (ii) the Guaranty may be released and (iii) the Original Indenture and the Supplemental Indenture may be released, cancelled and discharged under the applicable provisions of each document, have been, or will be under provisions satisfactory

to the Trustee, met and, accordingly, the Issuer is authorized to obtain the termination of the Original Lease and the Supplemental Lease and the release of the Guaranty, the Original Indenture and the Supplemental Indenture, including the cancellation and discharge of the lien of each.

NOW, THEREFORE, the Issuer, the Lessee and the Trustee hereby agree, confirm and declare that the Original Lease and the Supplemental Lease have been and are terminated, that the Guaranty has been released and that the Original Indenture and the Supplemental Indenture have been and are satisfied and, by this instrument, release, cancel and discharge the Original Indenture and the Supplemental Indenture. The Issuer, the Lessee and the Trustee further request that written notification to that effect be made by the Recorder of Guernsey County, Ohio on the recorded Original Lease, Supplemental Lease, Original Indenture and Supplemental Indenture.

IN WITNESS WHEREOF, the Issuer, the Lessee and the Trustee, respectively, have caused this instrument to be executed and delivered by their duly authorized officers as of February 27, 1985.

Signed and acknowledged as to the Issuer in the presence of: CITY OF CAMBRIDGE, OHIO

/s/ Sharon K. Stan By: /s/ C. Charles Schaub
Mayor

/s/ Carol J. Lorey Attest: /s/ Donna Gander
(Witnesses as to the Issuer) Auditor

Signed and acknowledged as to the Lessee in the presence of: GUERNSEY MEMORIAL HOSPITAL

/s/ Carol J. Lorey By: /s/ [Signature Illegible]
President (Title)

/s/ Pamela S. Steele Attest: /s/ Mrs. James (Mary K.) Cole
(Witnesses as to the Lessee) Secretary (Title)

Signed and acknowledged as to the Trustee in the presence of: BANCOHIO NATIONAL BANK

/s/ Sylvia L. Kendrick By: /s/ C. Joseph Serle
(Title)

/s/ Kathleen E. Harter Attest: /s/ Timothy Kelly
(Witnesses as to the Trustee) (Title)

The legal form and substance of the within instrument are hereby approved:

By: /s/ Gerald L. Jones
Director of Law
City of Cambridge, Ohio

[EXHIBIT P-25]

NEW ISSUE

770

$7,600,000
CITY OF CAMBRIDGE, OHIO
Hospital Improvement First Mortgage Revenue Bonds

(Guernsey Memorial Hospital — Lessee)

Dated: January 1, 1972 **Due: December 1, 1975-1996**

Principal (December 1) and semi-annual interest (June 1 and December 1) payable at the corporate trust office of The Ohio National Bank of Columbus, Columbus, Ohio, Trustee. The Bonds are issuable as coupon Bonds registrable as to principal only or as to both principal and interest in multiples of $5,000 and interchangeable as provided in the Indenture. First coupon payable June 1, 1972.

MATURITY SCHEDULE
(December 1)

Year	Amount	Coupon Rate	Price or Yield	Year	Amount	Coupon Rate	Price or Yield
1975	$150,000	5¼%	4.25%	1980	$215,000	6%	5.50%
1976	160,000	5¼	4.50	1981	230,000	6	5.65
1977	170,000	5¼	4.75	1982	245,000	6	5.80
1978	185,000	5¼	5.00	1983	260,000	6	5.90
1979	200,000	5¼	100	1984	285,000	6	100

TERM BONDS

$5,500,000 7% Due December 1, 1996 Price 100%
(accrued interest to be added)

Any of the Project Bonds maturing on December 1, 1996, which are outstanding, are subject to redemption pursuant to the mandatory sinking fund requirements of the Bond Resolution, on December 1, 1985, and each December 1 thereafter to and including December 1, 1996, at 100% of the principal amount thereof plus accrued interest to the redemption date. (See Schedule of Principal and Interest Requirements, Page 6.)

Unless redeemed pursuant to the preceding paragraph, any of the Project Bonds as may be outstanding and mature on December 1, 1996, are subject to optional redemption by the City prior to maturity on any interest payment date on or after December 1, 1984, in whole or in part, at the redemption price (expressed as percentages of the principal amount) as set forth below, plus accrued interest to the redemption date:

Redemption Period (dates inclusive)	Redemption Price
December 1, 1984 to December 1, 1986	104%
June 1, 1986 to December 1, 1988	103%
June 1, 1989 to December 1, 1990	102%
June 1, 1991 to December 1, 1993	101%
June 1, 1994 and thereafter	100%

Interest Exempt, in the opinion of Bond Counsel from Federal Income Taxes, under existing Statutes, Court Decision, Regulations and Rulings, and exempt from the Ohio personal income tax. (See page 20 herein). For status under "Phase II Price Controls", see page 2 herein.

The Project Bonds are being issued under authority of Section 3 of Article XVIII of the Ohio Constitution, Chapter 140, Ohio Revised Code, and Ordinance No. 4-72 of the City of Cambridge passed on January 18, 1972, as amended, and constitute special obligations of the City payable solely from a pledge of net revenues and other moneys received by the City from the operation of the hospital and from the rentals under its lease to Guernsey Memorial Hospital, a non-sectarian corporation not for profit, which rentals are secured by a gross pledge of earnings by said corporation. Neither the faith and credit nor the taxing power of the City or any other political subdivision is pledged to the payment of the principal of or the interest on the Bonds.

The Bonds are legal investments in the State of Ohio for banks, savings banks, building and loan associations, insurance companies, fiduciaries, certain trust funds and are also acceptable as security for the deposit of public moneys. (See page 3 herein.)

These bonds are offered subject to prior sale, when, as and if issued and received by us, subject to approval of legality by Messrs. Squire, Sanders & Dempsey, Cleveland, Ohio. The Financial Feasibility of the project has been studied by the firm of Ernst & Ernst and their report is included herein.

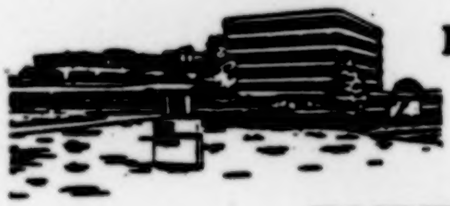
THE OHIO COMPANY McDONALD & COMPANY

The Date of this Official Statement is January 25, 1972

NEW ISSUE

Rating: Standard & Poor's: BBB(p)

In the opinion of Bond Counsel interest on the Bonds is exempt under existing law from federal income tax, the Ohio corporate franchise tax, Ohio personal income tax and municipal income taxes in Ohio; and the Bonds are exempt from Ohio intangible property taxes. (See "Tax Exemption" at page 32 herein.)



OFFICIAL STATEMENT RELATING TO THE ORIGINAL ISSUANCE OF

$10,410,000

City of Cambridge, Ohio

HOSPITAL IMPROVEMENT MORTGAGE REVENUE BONDS, SERIES 1982

(GUERNSEY MEMORIAL HOSPITAL PROJECT)

Dated: October 1, 1982

Due: December 1, 2002 and December 1, 2012

The Bonds are issuable as negotiable coupon bonds in the denominations of $5,000, registrable as to principal only and as fully registered bonds, without coupons, registered as to both principal and interest, in denominations of $5,000 and whole multiples thereof, and interchangeable as provided in the Indenture. Interest is payable semiannually on June 1 and December 1, commencing December 1, 1982, and principal is payable as set forth below at the corporate trust office of the Trustee, currently BancOhio National Bank, Columbus, Ohio.

Principal of, premium, if any, and interest on the Bonds are payable primarily from rentals paid to the City of Cambridge, Ohio, by Guernsey Memorial Hospital, as lessee and Guarantor. Neither the general resources, the full faith and credit, nor the taxing power of the City, the State, or any political subdivision are pledged to the payment of the principal of and premium, if any, and interest on the Bonds, which are special obligations of the City.

MATURITY SCHEDULE

Term Bonds

Year	December 1	Coupon Rate	Price or Yield(1)
2002	$3,000,000	12.0%	100%
2012	7,410,000	12.5	100

(1) Plus accrued interest from October 1, 1982.

Redemption Prior to Maturity: The Bonds are callable for redemption, prior to maturity (1) in whole or in part, on any interest payment date on and after December 1, 1992, to retire Bonds optionally, (2) in part on December 1 of each of the years 1997 through 2001 and 2003 through 2011, pursuant to sinking fund requirements, to retire mandatorily the Term Bonds maturing December 1, 2002 and December 1, 2012, respectively, (3) in whole or in part, at any time, as a result of certain defined events such as damage to, destruction or condemnation of or other events relating to the Project all as set forth hereinafter and more specifically in the Indenture. (See "The Bonds—Bond Redemption Prior to Maturity" at page 7 herein.)

The Bonds are offered, subject to prior sale, to withdrawal or to modification of the offer without any notice, when, as and if issued by the City and received by the Underwriters, subject to approval of certain legal matters relating to the issuance of the Bonds, by Squire, Sanders & Dempsey, Bond Counsel. Certain legal matters will be passed upon for the Hospital by Tribbie, Scott and Moorehead, and for the Underwriters by Gingher & Christensen. A study of the financial feasibility of the Addition, conducted by Ernst & Whinney, is included herein as Appendix II. The initial yield or offering price set forth above and concessions in transactions with securities dealers may be changed by the Underwriters. The Bonds are expected to be available for delivery in definitive form in Columbus, Ohio, on or about October 26, 1982.

THE OHIO COMPANY **McDONALD & COMPANY**

Dated October 12, 1982

* * * * *

Bond Redemption Prior to Maturity

Optional. The Bonds are redeemable at the option of the City, at the request of the Hospital, in inverse order of maturity (and by lot within maturity), either in whole or in part, on any interest payment date not earlier than December 1, 1992, at the redemption price (expressed as a percentage of principal amount) set forth below, plus accrued interest to the redemption date:

Redemption Dates	Redemption Price
December 1, 1992 and June 1, 1993	103.0%
December 1, 1993 and June 1, 1994	102.5%
December 1, 1994 and June 1, 1995	102.0%
December 1, 1995 and June 1, 1996	101.5%
December 1, 1996 and June 1, 1997	101.0%
December 1, 1997 and June 1, 1998	100.5%
December 1, 1998 and thereafter	100.0%

Mandatory. The Bonds maturing December 1, 2002 and December 1, 2012 are subject to mandatory redemption according to the schedule set forth below, from monies required to be deposited in the Debt Service Fund, at the principal amount thereof and accrued interest and without premium.

The principal amount of Bonds required to be redeemed on each mandatory redemption date shall be reduced by the principal amount of any such Bonds which at least 45 days prior to said mandatory redemption date shall have been purchased by the Trustee from monies available therefor or have been delivered to the Trustee for cancellation.

The mandatory redemption schedule is as follows:

Year	Bonds Due December 1, 2002	Year	Bonds Due December 1, 2012
1997	$ 370,000	2003	$ 410,000
1998	415,000	2004	465,000
1999	465,000	2005	520,000
2000	520,000	2006	585,000
2001	580,000	2007	660,000
		2008	745,000
		2009	835,000
		2010	940,000
		2011	1,060,000

Extraordinary Redemption. The Bonds may be called for redemption prior to maturity at the principal amount thereof and accrued interest, without premium, as a whole on any date if the Leased Premises are substantially damaged or destroyed, or the Lease becomes void or unenforceable, or certain other events occur and in whole or in part if title to all or substantially all of the Project is taken under power of eminent domain. (See "The Lease—Hospital's Options to Terminate Lease" at page 26 herein.)

* * * * *

[EXHIBIT P-28]

STATEMENTS OF REVENUES AND EXPENSES
GUERNSEY MEMORIAL HOSPITAL

	Year Ended December 31 1985	1984
Patient service revenues		
Daily patient services	$ 9,969,440	$10,074,172
Other nursing services	5,191,425	4,471,133
Other professional services	11,637,174	8,987,974
	26,798,039	23,533,279
Deductions from patient service revenues		
Provisions for doubtful accounts	1,798,933	1,817,341
Contractual adjustments	5,163,798	3,489,228
	6,962,731	5,306,569
NET PATIENT SERVICE REVENUES	19,835,308	18,226,710
Other operating revenues		
Cafeteria sales	213,784	195,963
Miscellaneous	15,653	15,890
	229,437	211,853
TOTAL OPERATING REVENUES	20,064,745	18,438,563
Operating expenses		
Nursing services	5,625,610	5,439,412
Other professional services	3,986,382	3,552,252
General services	2,953,178	2,818,799
Administrative services	3,964,171	3,474,865
Provision for depreciation	1,494,771	1,167,281
Interest and amortization of bond financing expenses	1,659,200	1,610,396
TOTAL OPERATING EXPENSES	19,683,312	18,063,005
GAIN FROM OPERATIONS	381,433	375,558

(Continued on next page)

STATEMENTS OF REVENUES AND EXPENSES – Continued
GUERNSEY MEMORIAL HOSPITAL

	Year Ended December 31 1985	1984
Nonoperating revenues		
Interest earnings on funds held by trustee	244,681	527,420
Other, principally other investment earnings	398,152	245,231
	642,833	772,651
EXCESS OF REVENUES OVER EXPENSES BEFORE EXTRAORDINARY ITEM	1,024,266	1,148,209
EXTRAORDINARY ITEM		
Loss on debt extinguishment – Note C	672,581	
EXCESS OF REVENUES OVER EXPENSES	$ 351,685	$ 1,148,209

See notes to financial statements.

NOTE C – LONG-TERM LIABILITIES (Continued)

In February 1985 the City issued $15,375,000 Hospital Improvement Revenue Refunding Bonds (1985 Bonds). The proceeds of this bond issue were used to defease the 1982 and 1972 Bonds. In connection with the issuance of the 1985 Bonds the City and the Hospital executed a new lease agreement. Pursuant to this lease agreement substantially all of the Hospital facilities are leased from the City and pledged as security for repayment of the 1985 Bonds. Annual rentals under the terms of the lease agreement are equal to the debt service requirements of the 1985 Bonds. A provision of this lease grants an option to the Hospital to purchase the facilities for a nominal sum after provision has been made to retire the 1985 Bonds.

The defeasance of the 1982 and 1972 Bonds will allow the Hospital to significantly reduce its debt service requirements over the next 28 years. However, for accounting purposes the Hospital has recorded an extraordinary loss of $672,581, related principally to the write-off of, the unamortized bond financing costs of the 1982 and 1972 bonds, in its 1985 financial statements. The third-party reimbursement effect of the extraordinary loss will be reported in the period the amounts are received.

The 1985 Bonds are due in annual installments ranging from $400,000 on December 1, 1986 to $775,000 on December 1, 1994, with interest at 6.5% to 10.0% (payable semi-annually) and (through mandatory sinking fund requirements) in annual installments thereafter ranging from $855,000 on December 1, 1995 to $1,715,000 on December 1, 2002, with interest at 10.5% (payable semi-

annually). The 1985 Bonds maturing in each of the years 1986 to 1990 amount to $400,000, $430,000, $465,000, $500,000, and $540,000, respectively.

The 1985 Bonds due December 1, 1986 through December 1, 1994 are not redeemable prior to their respective maturities. The 1985 Bonds maturing on or after December 1, 1995, are redeemable on any interest payment date not earlier than December 1, 1995 at redemption prices ranging from 103% of principal amount at that date to 100% on or after December 1, 2001 plus accred interest.

In addition the Hospital is required to maintain specified balances in special funds held by the trustee for the 1985 Bonds. Substantially all gross receipts of the Hospital are pledged as collateral against retirement of the 1985 Bonds.

Notes payable carry interest rates of 13.75% and require principal payments each of the years 1986 through 1990 approximating $49,000, $56,200, $64,500, $74,000, and $20,000, respectively. Certain data processing equipment has been pledged as security for repayment of the notes.

Interest costs incurred on the above long-term debt obligations approximated $1,559,000 in 1984 of which $112,000 was capitalized in 1984 as part of the cost of related construction projects. The amount of interest capitalized was reduced by $20,000 in 1984 for interest earned on certain unexpended proceeds of the 1982 Bonds.

[Exhibit P-29]

APB Opinion No. 26

Early Extinguishment of Debt

STATUS

Issued: October 1972

Effective Date: For transactions on or after January 1, 1973

Affects: Supersedes ARB 43, Chapter 15 and footnotes 1 and 2
Supersedes APB 6, paragraph 19

Affected by: Paragraphs 2 an 3(a) amended by FAS 15
Paragraph 2 amended by FAS 71
Paragraph 2 superseded by FAS 76
Paragraph 2 amended by FAS 84
Paragraph 3(a) superseded by FAS 76
Paragraph 3(c), 19, and 21 amended by FAS 76
Paragraph 20 amended by APB 30
Paragraph 20 amended by FAS 4

INTRODUCTION

1. Debt is frequently extinguished in various ways before its scheduled maturity. Generally, the amount paid upon reacquisition of debt securities will differ from the net carrying amount of the debt at that time. This Opinion expresses the views of the Accounting Principles Board regarding the appropriate accounting for that difference.

2. *Applicability*. This Opinion applies to the early extinguishment of all kinds of debt. It supersedes Chapter 15 of ARB No. 43 and Paragraph 19 of APB Opinion No. 6. However, this Opinion does not apply to debt that is converted pursuant to the existing conversion privileges of the holder. Moreover, it does not alter the accounting for convertible debt securities described in APB Opinion No. 14. This Opinion applies to regulated companies in accordance with the provisions of the Addendum to APB Opinion No. 2, *Accounting for the "Investment Credit,"* 1962.

3. *Definitions*. Several terms are used in this Opinion as follows:

a. *Early extinguishment* is the reacquisition of any form of debt security or instrument before its scheduled maturity except through conversion by the holder, regardless of whether the debt is viewed as terminated or is held as so-called "treasury bonds." All open-market or mandatory reacquisitions of debt securities to meet sinking fund requirements are early extinguishments.

b. *Net carrying amount* of debt is the amount due at maturity, adjusted for unamortized premium, discount, and cost of issuance.

c. *Reacquisition price* of debt is the amount paid on early extinguishment, including a call premium and miscellaneous costs of reacquisition. If early extinguishment is achieved by a direct exchange of new securities, the reacquisition price is the total present value of the new securities.

d. *Difference* as used in this Opinion is the excess of the reacquisition price over the net carrying amount or the excess of the net carrying amount over the reacquisition price.

DISCUSSION

4. *Current practice.* Early extinguishment of debt is usually achieved in one of three ways: use of existing liquid assets, use of proceeds from issuance of equity securities, and use of proceeds from issuing other debt securities. The replacement of debt with other debt is frequently called refunding.

5. Differences on nonrefunding extinguishments are generally treated currently in income as losses or gains. Three basic methods are generally accepted to account for the differences on refunding transactions:

a. Amortization over the remaining original life of the extinguished issue

b. Amortization over the life of the new issue

c. Recognition currently in income as a loss or gain.

Each method has been supported in court decisions, in rulings of regulatory agencies, and in accounting literature.

6. *Amortization over life of old issue.* Some accountants believe that the difference on refunding should be amortized over the remaining original life of the extinguished issue. In effect, the difference is regarded as an adjustment of the cash cost of borrowing that arises from obtaining another arrangement for the unexpired term of the old agreement. Therefore, the cost of money over the remaining period of the original issue is affected by the difference that results upon extinguishment of the original contract. Early extinguishment occurs for various reasons, but usually because it is financially advantageous to the issuer, for example, if the periodic cash interest outlay can be reduced for future periods. Accordingly, under this view the difference should be spread over the unexpired term of the original issue to obtain the proper periodic cost of borrowed money. If the maturity date of the new issue precedes the maturity date of the original issue, a portion of the difference is amortized over the life of the new debt and the balance of the difference is recognized currently in income as a loss or gain.

7. *Amortization over life of new issue.* Some accountants believe that the difference on refunding should be amortized over the life of the new issue if refunding occurs because of lower current interest rates or anticipated higher interest rates in the future. Under this view, the principal motivation for refunding is to establish a more favorable interest rate over the term of the new issue. Therefore, the expected benefits to be obtained over the life of the new issue justify amortization of the difference over the life of the new issue.

8. Recognition currently in income. Some accountants believe a difference on refunding is similar to the difference on other early extinguishments and should be recognized currently in income in the period of the extinguishment. This view holds that the value of the old debt has changed over time and that paying the call price or

current market value is the most favorable way to extinguish the debt. The change in the market value of the debt is caused by a change in the market rate of interest, but the change has not been reflected in the accounts. Therefore, the entire difference is recorded when the specific contract is terminated because it relates to the past periods when the contract was in effect. If the accountant had foreseen future events perfectly at the time of issuance, he would have based the accounting on the assumption that the maturity value of the debt would equal the reacquisition price. Thus, no difference upon early extinguishment would occur because previous periods would have borne the proper interest expense. Furthermore, a call premium necessary to eliminate an old contract and an unamortized discount or premium relate to the old contract and cannot be a source of benefits from a new debt issue. For example, a larger (or smaller) coupon rate could have been set on the old issue to avoid an unamortized discount (or premium) at issuance. When such debt originally issued at par is refunded, few accountants maintain that some portion of past interest should be capitalized and written off over the remaining life of the old debt or over the life of the new debt.

9. Another argument in favor of current recognition of the difference as gain or loss is also related to market forces but is expressed differently. If debt is callable, the call privilege is frequently exercised when the market value of the bonds as determined by the current yield rate exceeds the call price. A loss or gain is recognized on extinguishing the debt because an exchange transaction occurs in which the call or current market value of the debt differs from its net carrying amount. For example, the market value of the debt ordinarily rises as the market rate of interest falls. If market values were recorded as the

market rate of interest fluctuates, the changes in the market value of the debt would have been recorded periodically as losses or gains. The bond liability would not exceed the call price.

10. On the other hand, some accountants holding views opposing current recognition of the difference in income believe that recognizing the difference as gains or losses may induce a company to report income by borrowing money at high rates of interest in order to pay off discounted low-rate debt. Conversely, a large potential charge to income may discourage refunding even though it is economically desirable; the replacement of high cost debt with low cost debt may result in having to recognize a large loss. Thus, a company may shower higher current income in the year of extinguishment while increasing its economic cost of debt and lower current income while decreasing its economic cost of debt. For these reasons, these accountants favor deferral.

11. *Extinguishment of convertible debt.* Accountants have expressed differing views regarding accounting for the extinguishment of convertible debt. In APB Opinion No. 14, which is directed in part to accounting for convertible debt at time of issue, the Board concluded that no portion of the proceeds from the issuance of the types of convertible debt securities defined in the Opinion should be accounted for as attributable to the conversion feature. In reaching that conclusion, the Board placed greater weight on the inseparability of the debt and conversion option and less weight on practical difficulties. The Board emphasized that a convertible debt security is a complex hybrid instrument bearing an option the alternative choices of which cannot exist independently of one another. The holder ordinarily does not sell one right and

retain the other. Furthermore, the two choices are mutually exclusive; the holder cannot exercise the option to convert unless he foregoes the right to redemption, and vice versa. Therefore, APB Opinion No. 14 implies that (except for conversion) a difference on extinguishing convertible debt needs to be recognized in the same way as a difference on extinguishment of debt without conversion features.

12. The various views expressed on how to account for the extinguishment of convertible debt to some extent reflect the same attitudes as to the nature of the debt at time of issue as were considered in APB Opinion No. 14. Thus, some accountants believe that a portion of the proceeds at issuance is attributable to the conversion feature. If the convertible debt is later extinguished, the initial value of the conversion feature should then be recorded as an increase in stockholders' equity. The balance of the difference would, under that view of the transaction, be a gain or loss in income of the period of extinguishment.

13. Some accountants maintain that the intent of issuing convertible debt is to raise equity capital. A convertible debt is therefore in substance an equity security, and all the difference on extinguishing convertible debt should be an increase or decrease of paid-in capital.

14. Another view is that the market price that gives rise to the difference reflects both the level of interest rates on debt and the prices of the related common stock or both. Those expressing this view believe that if the effects of these factors can be identified at the time of extinguishment, the difference attributable to the interest rate should be accounted for as gain or loss in income, and that the difference attributable to the market price of the issuer's

common stock should be accounted for as an increase or decrease in paid-in capital.

15. Some accountants believe that the accounting for a difference on extinguishment of convertible debt depends on the nature of the security at the time of extinguishment. Events after time of issue may provide evidence that a convertible debt is either still debt in substance or equity in substance. Under this view the purchase price on extinguishment provides the best evidence as to whether the security is essentially debt or equity. Convertible debt that is selling below the call or redemption price at time of extinguishment is essentially debt; the difference should be a gain in current income. Moreover, if convertible debt has a coupon rate that exceeds the current market rate of interest and clearly causes the issue to trade at a premium as a debt instrument, the difference on extinguishment should be a loss in current income. On the other hand, if convertible debt is selling above the call or redemption price because of the conversion privilege, it is essentially a common stock. In effect, market forces have transformed a debt instrument into an equity security, and the extinguishment provides an explicit transaction to justify recognizing that the convertible debt is in substance a common stock equivalent. Those who hold this view believe that accounting should report the substance of the transaction rather than its form; convertible debt need not be converted into common stock to demonstrate that the extinguishment transaction is equivalent to a purchase of common stock for retirment.

16. *Economic nature of extinguishment.* In many respects the essential economics of the decision leading to the early extinguishment of outstanding debt are the same, regardless of whether such debt is extinguished via the use

of the existing liquid assets, new equity securities, or new debt. That is, the decision favoring early extinguishment usually implies that the net present value of future cash inflows and outflows is maximized by extinguishing the debt now rather than by letting it run to maturity. The savings may be in lower cash interest costs on a new debt issue, in increased earnings per share of common stock if the assets are not earning the interest rate on the outstanding debt, or in some other form. The essential event is early extinguishment. Under this view, the difference is associated with extinguishing the existing debt and is accounted for the same regardless of how extinguishment is accomplished.

17. To illustrate that view, assume that three firms each have long-term debt outstanding with ten years remaining to maturity. The first firm may have excess cash and no investment opportunities that earn a rate of return higher than the cash savings that would ensue from immediately extinguishing the debt. The second firm may wish to replace the debt with a similar issue bearing a lower coupon rate. The third firm may have excessive debt and may want to replace the debt with a new issue of common stock. The underlying reason for the early extinguishment in all three cases is to obtain a perceived economic advantage. The relevant comparison in the replacement of debt with other debt is with the costs of other debt. The comparison in other cases is with other means of financing. The means by which the debt is extinguished have no bearing on how to account for the loss or gain.

OPINION

18. The following conclusions of the Board are based primarily on the reasoning in paragraphs 8, 9, 11, 16, and 17.

19. *Reduction of alternatives.* The Board concludes that all extinguishments of debt before scheduled maturities are fundamentally alike. The accounting for such transactions should be the same regardless of the means used to achieve the extinguishment.

20. *Disposition of amounts.* A difference between the reacquisition price and the net carrying amount of the extinguished debt should be recognized currently in income of the period of extinguishment as losses or gains and identified as a separate item.[1] The criteria in APB Opinion No. 9 should be used to determine whether the losses or gains are ordinary or extraordinary items. Gains and losses should not be amortized to future periods.

21. *Convertible debt.* The extinguishment of convertible debt before maturity does not change the character of the security as between debt and equity at that time. Therefore, a difference between the cash acquisition price of the debt and its net carrying amount should be recognized currently in income in the period of extinguishment as losses or gains.

EFFECTIVE DATE

22. This Opinion shall be effective for all extinguishments of debt occurring on or after January 1, 1973. Extinguishment transactions are considered to be terminated events similar to that set forth in paragraph 16 of APB Opinion No. 20 and as such, extinguishments that were

[1] If upon extinguishment of debt, the parties also exchange unstated (or stated) rights or privileges, the portion of the consideration exchanged allocable to such unstated (or stated) rights or privileges should be given appropriate accounting recognition. Moreover extinguishment transactions between related entities may be in essence capitol transaction.

previously recorded in fiscal years ending before January 1, 1973 should not be adjusted. However, the accounting for refunding transactions that have been previously reported in the fiscal year in which December 31, 1972 occurs may be retroactively restated to comply with the provisions of this Opinion.

The Opinion entitled "Early Extinguishment of Debt" was adopted by the assenting votes of fifteen members of the Board, of whom three, Messrs. Cummings, Ferst, and Gellein, assented with qualification. Messrs. Defliese, Watt, and Wear dissented.

Messrs. Cummings and Ferst assent to the issuance of this Opinion because it will reduce alternatives in accounting for extinguishments of long-term debt which are fundamentally alike. They object, however, to the conclusion in paragraph 21 that extinguishment of convertible debt gives rise to an income charge for the entire difference between the acquisition price and its carrying amount under all circumstances. In their view when convertible debt is traded at amounts which are clearly attributable to the value of the securities into which it is convertible, the acquisition of such debt by the issuing company is in substance an acquisition of its treasury stock. Paragraph 21 mandates the unnecessary process of first converting the debt and then acquiring the stock in order to reflect the financial reality inherent in the transaction.

Mr. Gellein assents to issuance of the Opinion but disagrees with the conclusion expressed in paragraph 18 that all extinguishments of debt before scheduled maturities are fundamentally alike. He believes that some debt retirements which are accompanied by concurrent borrowings have economic purposes and results different from other debt retirements, and that the accounting should in these

limited cases recognize these differences. Where a concurrent borrowing and retirement is pla ed, for example, to take advantage of a relatively low market rate of interest, or to avoid an anticipated increase, he believes that there is in substance a substitution of debt and that the "difference" between the reacquisition price and the net carrying amount of the retired debt should be charged or credited, as the case may be, to income over the remaining term of the retired debt. He believes that in such a situation the difference, whether charge or credit, arises from an economic circumstance and an action the result of which is to cause the periodic interest expense to be virtually unchanged during the remaining life of the retired debt. Amortizing the "difference" over the remaining life of the retired debt will show that result; the accounting recommended in paragraph 19 will not.

Mr. Defliese dissents to this Opinion because it fails to require recognition of the economic effects associated with an early extinguishment of debt designed to yield a profit. In his view such a payment, whether from borrowed funds (debt refunding) or from working capital (equity refunding), is essentially in every case a refunding at a higher cost of money (over the remaining original term) than that of the debt being prepaid, equivalent to an arbitrage with a predetermined net profit consisting of the *difference* between the discount from par and the future increased interest differential. He believes that omission of a provision for this added interest cost overstates the profit in the year of prepayment and shifts the interest burden to future periods. When the added cost is not known, or cannot be reasonably estimated, the entire discount should be allocated ratably over the remaining original term to offset such cost, in which case the net profit is spread over the remaining term. Similarly, when debt is refunded at a pre-

mium in order to take advantage of lower current or future rates, the premium should be deferred and charged appropriately to the periods benefited.

Mr. Watt dissents to this Opinion for the reasons set forth in paragraphs 6 and 10, because it requires gain or loss to be recognized currently in income of a difference between the reacquisition price and the net carrying amount of the extinguished debt in a refunding situation. He also dissents, for the reason set forth in paragraph 15, because it requires a loss to be recognized on the retirement of a convertible debt that is obviously trading on its common stock characteristics. To him this Opinion is a classic example of narrowing alternative accounting principles in a limited area to a point where the use of different accounting principles to accommodate entirely different circumstances calling for different results has now been proscribed.

Mr. Wear dissents to this Opinion because, in his view, it does not develop a persuasive and convincing argument that all extinguishments of debt before scheduled maturities are fundamentally alike.

He believes there are important differences in refunding situations, for the reasons described in paragraph 6, and where convertible debt is involved, for the reasons set forth in paragraph 15.

NOTES

Opinions of the Accounting Principles Board present the conclusions of at least two-thirds of the members of the Board, which is the senior technical body of the Institute authorized to issue pronouncements on accounting principles.

Board Opinions are considered appropriate in all circumstances covered but need not be applied to immaterial items.

Covering all possible conditions and circumstances in an Opinion of the Accounting Principles Board is usually impracticable. The substance of transactions and the principles, guides, rules, and criteria described in Opinions should control the accounting for transactions not expressly covered.

Unless otherwise stated, Opinions of the Board are not intended to be retroactive.

Council of the Institute has resolved that Institute members should disclose departures from Board Opinions in their reports as independent auditors when the effect of the departures on the financial statements is material or see to it that such departures are disclosed in notes to the financial statements and, where practicable, should disclose their effects on the financial statements (Special Bulletin, Disclosure of Departures from Opinions of the Accounting Principles Board, *October 1964). Members of the Institute must assume the burden of justifying any such departures.*

[EXHIBIT P-32]

COMPARATIVE SCHEDULE
ANNUAL DEBT SERVICE
GUERNSEY MEMORIAL HOSPITAL

Year Ending December 1,	1985 Bonds: Interest Due	1985 Bonds: Principal Due	1985 Bonds: Principal and Interest Due	1972 and 1982 Bonds: Interest Due: 1972 Bonds	1972 and 1982 Bonds: Interest Due: 1982 Bonds	1972 and 1982 Bonds: Principal Due: 1972 Bonds	1972 and 1982 Bonds: Principal Due: 1982 Bonds	Total Principal and Interest
1985	$ 1,275,094	$ 115,000	$ 1,390,094	$ 364,700	$ 1,286,250	$ 25,000		$ 1,675,950
1986	1,522,638	400,000	1,922,638	363,650	1,286,250	325,000		1,974,900
1987	1,494,638	430,000	1,924,638	340,900	1,286,250	350,000		1,977,150
1988	1,462,388	465,000	1,927,388	316,400	1,286,250	375,000		1,977,650
1989	1,425,188	500,000	1,925,188	290,150	1,286,250	400,000		1,976,400
1990	1,382,688	540,000	1,922,688	262,150	1,286,250	430,000		1,978,400
1991	1,334,088	590,000	1,924,088	232,050	1,286,250	465,000		1,983,300
1992	1,279,512	650,000	1,929,512	199,500	1,286,250	490,000		1,975,750
1993	1,217,762	705,000	1,922,762	165,200	1,286,250	530,000		1,981,450
1994	1,149,025	775,000	1,924,025	128,100	1,286,250	570,000		1,984,350
1995	1,071,525	855,000	1,926,525	88,200	1,286,250	610,000		1,984,450
1996	981,750	940,000	1,921,750	45,500	1,286,250	650,000		1,981,750
1997	883,050	1,045,000	1,928,050		1,286,250		$ 370,000	1,656,250
1998	773,325	1,150,000	1,923,325		1,241,850		415,000	1,656,850
1999	652,575	1,275,000	1,927,575		1,192,050		465,000	1,657,050
2000	518,700	1,405,000	1,923,700		1,136,250		520,000	1,656,250
2001	371,175	1,555,000	1,926,175		1,073,850		580,000	1,653,850
2002	207,900	1,715,000	1,922,900		1,004,250		650,000	1,654,250
2003	27,825	265,000	292,825		926,250		410,000	1,336,250
2004					875,000		465,000	1,340,000
2005					816,875		520,000	1,336,875
2006					751,875		585,000	1,336,875
2007					678,750		660,000	1,338,750
2008					596,250		745,000	1,341,250
2009					503,125		835,000	1,338,125
2010					398,750		940,000	1,338,750
2011					281,250		1,060,000	1,341,250
2012					148,750		1,190,000	1,338,750
	$19,030,846	$15,375,000	$34,405,846	$2,796,500	$28,346,375	$5,220,000	$10,410,000	$46,772,875

[EXHIBIT P-33]

CALCULATION OF LOSS ON EXTINGUISHMENT OF DEBT
GUERNSEY MEMORIAL HOSPITAL
December 31, 1985

Purchase of escrow securities	$16,011,200
NET REACQUISITION PRICE	16,011,200
Old debt:	
1982 Bonds outstanding	10,410,000
1972 Bonds outstanding	5,220,000
Unamortized financing cost	(709,499)
Interest expense payable	418,118
NET CARRYING AMOUNT OF OLD DEBT	15,338,619
LOSS ON EXTINGUISHMENT OF DEBT	$ 672,581

[INTERMEDIARY'S SUPPLEMENTAL POSITION PAPER]

II. THE LOSS AND THE ADVANCE REFUNDING

A) Prior to the refinancing, the Provider had the following debt outstanding:

	1972 Bonds	1982 Bonds
Original Prin.	$7,600,000	$10,410,000
Outstanding Prin. (Feb. '85)	5,220,000	10,410,000
Interest Rates	5.25 to 6%	12.0 to 12.5%
Term	to 1996	to 2012
Early Call*	N/A	1992
Source:	Exh. 25	Exh. 26

* Under the refinancing, the Intermediary believes that the 1972 bonds were to be paid off at their scheduled maturity without regard to any early call date. The 1982 bonds would be paid at the 1992 call date.

[INTERMEDIARY'S EXHIBIT M]

GUERNSEY MEMORIAL HOSPITAL
Amortization of Loss on Early Extinguishment of Debt
12-31-85

Period	(1) Interest Expense Refunded Interest	(2) Refunding Series 1985	(3) Investment Income on Escrow Funds	(4) = (1 + 2 − 3) Net Allowable Interest Expense	(5) Amoritization of Series Old Finance Costs	(6) Amoritization of Series 1985 Finance Costs	(7) Call Premium	(8) = (4 + 5 + 6 + 7) Total Allowable Expenses After Refunding	(9) = (2 + 6) Total Actual Expense After Refunding	(10) = (8 − 9) Medicare Work Sheet A − B Adjustment	
1985	1,371,738	1,401,981	1,453,679	1,320,039	100,503	69,736		1,490,278	1,471,717	18,561	
1986	1,648,004	1,520,304	1,692,532	1,475,776	101,268	67,908		1,644,952	1,588,212	56,740	
1987	1,625,108	1,491,951	1,664,361	1,452,699	99,773	65,943		1,618,415	1,557,891	60,521	
1988	1,600,463	1,459,288	1,612,617	1,447,134	98,171	63,818		1,609,123	1,523,106	86,017	
1989	1,574,067	1,421,646	1,585,879	1,409,834	96,262	61,532		1,567,628	1,483,176	84,450	
1990	1,545,892	1,378,638	1,525,615	1,398,915	94,624	59,065		1,552,604	1,437,703	114,901	
1991	1,515,588	1,329,540	1,508,787	1,336,340	92,640	56,369		1,485,349	1,385,909	99,440	
1992	1,375,704	1,274,366	1,359,530	1,290,540	10,080	53,398	312,300	1,666,318	1,327,764	338,304	
1993	162,108	1,212,034	233,234	1,140,908	7,816	50,177		1,198,901	1,262,211	−63,310	
1994	124,775	1,142,567	182,652	1,084,690	5,381	46,635		1,136,706	1,189,202	−52,496	
1995	84,642	1,064,044	126,104	1,022,581	2,776	42,728		1,068,085	1,106,772	−38,687	
1996	41,708	973,525	63,240	951,994	0	38,432		990,426	1,011,957	−21,531	
1997	0	873,906	0	873,906	0	33,657		907,563	907,563	0	
1998	0	763,262	0	763,262	0	28,401		791,663	791,663	0	
1999	0	641,419	0	641,419	0	22,575		663,994	663,994	0	
2000	0	506,406	0	506,406	0	16,154		522,560	522,560	0	
2001	0	357,569	0	357,569	0	9,048		366,617	366,617	0	
2002	0	204,488	0	204,488	0	1,211		205,699	205,699	0	
2003	0	13,913	0	13,913	0			13,913	13,913	0	
2004	0		0	0	0			0	0	0	
2005	0		0	0	0			0	0	0	
2006	0		0	0	0			0	0	0	
2007	0		0	0	0			0	0	0	
2008	0		0	0	0			0	0	0	
2009	0		0	0	0			0	0	0	
2010	0		0	0	0			0	0	0	
2011	0	0	0	0	0			0	0	0	
2012	0	0	0	0	0			0	0	0	
2013	0	0	0	0	0			0	0	0	
2014	0	0	0	0	0			0	0	0	
2015	0	0	0	0	0			0	0	0	
2016	0	0	0	0	0			0	0	0	
2017	0	0	0	0	0	0		0	0	0	
2018	0	0	0	0	0	0		0	0	0	
2019	0	0	0	0	0	0		0	0	0	
2020	0	0	0	0	0	0	0	0	0	0	
TOTAL	12,669,796	19,030,847	13,008,230	18,692,413	709,293	786,787	312,300	20,500,793	19,817,634	683,159	672,581

[INTERMEDIARY'S EXHIBIT N]

COMMUNITY MUTUAL INSURANCE COMPANT
ANALYSIS OF BOND DEFEASANCE

GUERNSEY MEMORIAL HOSPITAL
INTEREST EXPENSE

Period	Refunded Interest Exp 1972	Refunded Interest Exp 1982	Paid Total	Beginning Accrual	Ending Accrual	Previously Expended	Total	
1985	364,700	1,286,250	1,650,950	137,579	137,492	279,125	1,371,738	1,681,254
1986	363,650	1,286,250	1,649,900	137,492	135,596		1,648,004	
1987	340,900	1,286,250	1,627,150	135,596	133,554		1,625,108	
1988	316,400	1,286,250	1,602,650	133,554	131,367		1,600,463	
1989	290,150	1,286,250	1,576,400	131,367	129,033		1,574,067	
1990	262,150	1,286,250	1,548,400	129,033	126,525		1,545,892	
1991	232,050	1,286,250	1,518,300	126,525	123,813		1,515,588	
1992	199,500	1,286,250	1,485,750	123,813	13,767		1,375,704	
1993	165,200		165,200	13,767	10,675		162,108	
1994	128,100		128,100	10,675	7,350		124,775	
1995	88,200		88,200	7,350	3,792		84,642	
1996	45,500		45,500	3,792	0		41,708	
1997			0	0	0		0	
1998			0	0	0		0	
1999			0	0	0		0	
2000			0	0	0		0	
2001			0	0	0		0	
2002			0	0	0		0	
2003			0	0	0		0	
2004			0	0	0		0	
2005			0	0	0		0	
2006			0	0	0		0	
2007			0	0	0		0	
2008			0	0	0		0	
2009			0	0	0		0	
2010			0	0	0		0	
2011			0	0	0		0	
2012			0	0	0		0	
2013			0	0	0		0	
2014			0	0	0		0	
2015			0	0	0		0	
2016			0	0	0		0	
2017			0	0	0		0	
2018			0	0	0		0	
2019			0	0	0		0	
2020			0	0	0		0	
	2,796,500	10,290,000	13,086,500	1,090,542	952,963		12,669,796	

GUERNSEY MEMORIAL HOSPITAL
INTEREST INCOME

COMMUNITY MUTUAL INSURANCE COMPANY
ANALYSIS OF BOND DEFEASANCE

	INCOME ON OBLIGATIONS						
Period	June Receipts	December Receipts	Open Market Securities	Total Receipts	Beginning Accrual	Ending Accrual	Total Interest Income
1985	409,559.54	791,785.98	111,110	1,312,456		141,223	1,453,679
1986	791,785.98	791,785.98	111,110	1,694,682	141,223	139,074	1,694,532
1987	778,889.06	778,889.06	111,110	1,668,888	139,074	134,547	1,664,361
1988	763,376.95	763,376.95	87,805	1,614,559	134,547	132,604	1,612,617
1989	763,376.95	763,376.95	64,500	1,591,254	132,604	127,229	1,585,879
1990	763,376.95	763,376.95		1,526,754	127,229	126,090	1,525,615
1991	756,541.11	756,541.11		1,513,082	126,090	121,795	1,508,787
1992	731,091.08	730,450.29		1,461,541	121,795	19,784	1,359,530
1993	118,704.14	118,704.14		237,408	19,784	15,610	233,234
1994	93,660.20	93,660.20		187,320	15,610	10,941	182,652
1995	65,648.31	65,648.31		131,297	10,941	5,749	126,104
1996	34,494.33	34,494.33		68,989	5,749	0	63,240
1997				0			
1998				0			
1999				0			
2000				0			
2001				0			
2002				0			
2003				0			
2004				0			
2005				0			
2006				0			
2007				0			
2008				0			
2009				0			
2010				0			
2011				0			
2012				0			
2013				0			
2014				0			
2015				0			
2016				0			
2017				0			
2018				0			
2019				0			
2020				0			
TOTAL	6,070,505	6,452,090	485,635	13,008,230	974,648	974,648	13,008,230

All income on investments reflect accrued interest for the month of December, per HCFA-15 section 233.

COMMUNITY MUTUAL INSURANCE COMPANY
ANALYSIS OF BOND DEFEASANCE

GUERNSEY MEMORIAL HOSPITAL
AMORTIZATION OF FINANCING COST

Period	1972 Issue	1982 Issue	Previously Expenses	Total
1985	22,189	80,467	−2,153	100,503
1986	20,801	80,467		101,268
1987	19,306	80,467		99,773
1988	17,704	80,467		98,171
1989	15,795	80,467		96,262
1990	14,157	80,467		94,624
1991	12,173	80,467		92,640
1992	10,080	0		10,080
1993	7,816	0		7,816
1994	5,381	0		5,381
1995	2,776	0		2,776
1996		0		0
1997		0		0
1998		0		0
1999		0		0
2000		0		0
2001		0		0
2002		0		0
2003		0		0
2004		0		0
2005		0		0
2006		0		0
2007		0		0
2008		0		0
2009		0		0
2010		0		0
2011		0		0
2012		0		0
2013		0		0
2014		0		0
2015		0		0
2016		0		0
2017		0		0
2018		0		0
2019		0		0
2020		0		0
TOTAL	148,178	563,268	−2,153	709,293

COMMUNITY MUTUAL INSURANCE COMPANY
ANALYSIS OF BOND DEFEASANCE

Period	Bonds Retired	Bonds Outstanding Beg of Year	Amortization Per Year	Remaining Unamortized Amount	Amortization Expense
1982	0				0
1983	0				0
1984	0			563,268	0
1985	0	10,410,000	0.142857	482,801	80,467
1986	0	10,410,000	0.142857	402,334	80,467
1987	0	10,410,000	0.142857	321,867	80,467
1988	0	10,410,000	0.142857	241,401	80,467
1989	0	10,410,000	0.142857	160,934	80,467
1990	0	10,410,000	0.142857	80,467	80,467
1991	0	10,410,000	0.142857	0	80,467
1992	10,410,000	0	0.000000	0	0
1993	0	0	0.000000	0	0
1994	0	0	0.000000	0	0
1995	0	0	0.000000	0	0
1996	0	0	0.000000	0	0
1997	0	0	0.000000	0	0
1998	0	0	0.000000	0	0
1999	0	0	0.000000	0	0
2000	0	0	0.000000	0	0
2001	0	0	0.000000	0	0
2002	0	0	0.000000	0	0
2003	0	0	0.000000	0	0
2004	0	0	0.000000	0	0
2005	0	0	0.000000	0	0
2006		0	0.000000	0	0
2007		0	0.000000	0	0
2008		0	0.000000	0	0
2009		0	0.000000	0	0
2010		0	0.000000	0	0
2011		0	0.000000	0	0
2012		0	0.000000	0	0
2013		0	0.000000	0	0
2014		0	0.000000	0	0
2015		0	0.000000	0	0
2016		0	0.000000	0	0
2017		0	0.000000	0	0
2018		0	0.000000	0	0
2019		0	0.000000	0	0
2020		0	0.000000	0	0
	10,410,000	72,870,000	1	2,253,072	563,268

NEW ISSUE

Rating: Standard & Poor's: BBB(p)

In the opinion of Bond Counsel, under existing law interest on the 1985 Bonds is exempt from federal income tax and Ohio corporate franchise tax; interest and any profit made on the sale of the 1985 Bonds are exempt from Ohio personal income tax and municipal income taxes in Ohio; and the 1985 Bonds are exempt from Ohio intangible property taxes. (See "Tax Exemption" at page 38 herein.)

OFFICIAL STATEMENT
RELATING TO THE ORIGINAL ISSUANCE OF

$15,375,000

CITY OF CAMBRIDGE, OHIO

HOSPITAL IMPROVEMENT REVENUE REFUNDING BONDS, SERIES 1985

(Guernsey Memorial Hospital Project)

Dated: February 1, 1985

Due: Serially December 1, 1985 through December 1, 1994 and on December 1, 2003

The 1985 Bonds are issuable only as fully registered bonds, without coupons, in denominations of $5,000 and whole multiples thereof. Interest is payable semiannually on June 1 and December 1, commencing June 1, 1985, and will be mailed to holders of the 1985 Bonds. Principal is payable as set forth below at the corporate trust office of the Trustee, currently BancOhio National Bank, Columbus, Ohio.

Principal of, premium, if any, and interest on the 1985 Bonds are payable primarily from rentals paid to the City of Cambridge, Ohio, by Guernsey Memorial Hospital, as lessee and guarantor. Neither the general resources, the full faith and credit, nor the taxing power of the City, the State, or any political subdivision are pledged to the payment of the principal of and premium, if any, and interest on the 1985 Bonds, which are special obligations of the City.

MATURITY SCHEDULE

SERIAL 1985 BONDS

December 1	Principal Amount	Interest Rate	Price or Yield(1)	December 1	Principal Amount	Interest Rate	Price or Yield(1)
1985	$115,000	6.50%	100%	1990	$540,000	9.00%	100%
1986	400,000	7.00	100	1991	590,000	9.25	100
1987	430,000	7.50	100	1992	650,000	9.50	100
1988	465,000	8.00	100	1993	705,000	9.75	100
1989	500,000	8.50	100	1994	775,000	10.00	100

TERM 1985 BONDS

December 1	Principal Amount	Interest Rate	Price or Yield(1)
2003	$10,205,000	10.50%	100%

(1) Plus accrued interest from February 1, 1985.

Redemption Prior to Maturity: The 1985 Bonds are callable for redemption, prior to maturity (1) in whole at any time and in part on any interest payment date, in each case on and after December 1, 1995, to retire the 1985 Bonds optionally, (2) in part on December 1 of each of the years 1995 through 2002, pursuant to sinking fund requirements, to retire mandatorily the 1985 Bonds maturing December 1, 2003, and (3) in whole at any time, or in part on any interest payment date, as a result of damage to, destruction or condemnation of the Leased Premises, and as a whole at any time if certain other events occur, all as set forth hereinafter and more specifically in the Indenture. (See "The 1985 Bonds—1985 Bond Redemption Prior to Maturity" at page 8 herein.)

The 1985 Bonds are offered, subject to prior sale, to withdrawal or to modification of the offer without any notice, when, as and if issued by the City and received by the Underwriters, subject to approval of certain legal matters relating to the issuance of the 1985 Bonds by Squire, Sanders & Dempsey, Bond Counsel. Certain legal matters will be passed upon for the Hospital by Tribbie, Scott and Moorehead and by Bricker & Eckler, and for the Underwriters by Gingher & Christensen. A feasibility study, conducted by Ernst & Whinney, is included herein as Appendix II. The initial yield or offering price set forth above and concessions in transactions with securities dealers may be changed by the Underwriters. The 1985 Bonds are expected to be available for delivery in definitive form in Columbus, Ohio, on or about February 27, 1985.

The Ohio Company

McDonald & Company
Securities, Inc.

Dated February 7, 1985

INTRODUCTORY STATEMENT OF CERTAIN FACTORS

This introductory statement is subject in all respects to the more complete information appearing elsewhere in this Official Statement. The introductory statement is not to be read or used without reference to the entire Official Statement.

Risks: Since payment of the principal of and interest on the bonds described on the front page of this Official Statement (the "1985 Bonds") is dependent entirely on the revenues to be derived from the Leased Premises, as hereinafter described, certain risks are inherent in the payment of such principal and interest. Reference should be made to the Official Statement as a whole, and particularly to the section entitled "Bondholders' Risks" at page 39 herein, for a description of certain risks.

The City: The City of Cambridge, Ohio (the "Issuer" or "City") is a municipal corporation and a political subdivision organized and existing under the laws of the State of Ohio, and is authorized by such laws, among other things, to issue bonds for the acquisition, construction and improvement of hospital facilities, such as the Leased Premises, to lease such facilities to Ohio, non-profit corporations, such as Guernsey Memorial Hospital, and to issue bonds to refund obligations previously issued to pay the costs of such facilities.

The Hospital: Guernsey Memorial Hospital (the "Hospital") is a private, non-profit corporation organized under the laws of Ohio, which currently operates a 202-bed hospital located in and adjacent to the City of Cambridge, Ohio. (See "The Hospital" at page 10 herein.)

The Trustee: BancOhio National Bank (the "Trustee") is a national association organized under the laws of the United States of America and duly authorized to exercise corporate trust powers under the laws of the State of

Ohio, with its principal corporate trust offices located at 155 East Broad Street, Columbus, Ohio 43265.

The 1985 Bonds: 1985 Bonds in the aggregate principal of $15,375,000 will be issued in the form of serial bonds and term bonds. 1985 Bonds are issuable only in fully registered form, in denominations of $5,000 and whole multiples thereof. Semiannual interest at the rates set forth on the front page of this Official Statement is payable on June 1 and December 1, commencing June 1, 1985, until maturity or prior redemption. (See "The 1985 Bonds" at page 6 herein.)

The Existing Facilities, the Leased Real Property and the Leased Premises: The Hospital leases from the City and operates an existing 202-bed hospital facility and certain other property associated therewith (the "Existing Facilities") together with the approximately 12 acres of land upon which the Existing Facilities are situated (the "Leased Real Property"). (See "The Hospital—The Existing Facilities" at page 11 herein.) The Existing Facilities and the Leased Real Property are herein together called the "Leased Premises".

Purpose of the Financing: Proceeds from the sale of the 1985 Bonds, together with the Equity Contribution of the Hospital, will be used by the City to advance refund the City's outstanding Hospital Improvement First Mortgage Revenue Bonds, issued in 1972 (the "1972 Bonds") and its outstanding Hospital Improvement Mortgage Revenue Bonds, Series 1982 (Guernsey Memorial Hospital Project), issued in 1982 (the "1982 Bonds"), to fund the Debt Service Reserve Fund for the 1985 Bonds and to pay certain costs related to the issuance of the 1985 Bonds. (See "Estimated Sources and Uses of Funds" at page 6 herein.)

Security: The 1985 Bonds, together with any additional bonds ("Additional Bonds") hereafter issued on a parity with the 1985 Bonds, will be secured by (1) a Trust

Indenture dated as of February 1, 1985 (the "Indenture"), by and between the City and the Trustee, pursuant to which the City (i) grants to the Trustee a lien on and a security interest in Hospital Receipts, defined generally as all monies, investments and proceeds of investments received by the City or the Trustee from or in connection with the ownership, lease, operation, acquisition, construction, improvement, equipping or financing of the Leased Premises, including monies in the Special Funds (see "the Special Funds," below), less any reasonable and proper expenses of the City or state of operating, maintaining and repairing the Leased Premises, and (ii) assigns to the Trustee (subject to limited exceptions) its right, title and interest in and to the Lease dated as of February 1, 1985 (the "Lease") between the City and the Hospital, including the City's right to receive Basic Rent from the Hospital, and (2) a Guaranty Agreement dated as of February 1, 1985 (the "Guaranty") between the Hospital and the Trustee in which the Hospital unconditionally guarantees to the Trustee the payment of the principal of, premium, if any, and interest on the 1985 Bonds when due. (See "The 1985 Bonds—Security" at page 7 herein.)

In order to secure its obligation to pay Basic Rent and to comply with its other obligations under the Lease, the Hospital has granted the City a security interest in its Gross Revenues, which security interest has been assigned by the City to the Trustee in the Indenture. (See "The Lease—Pledge of Gross Revenues" at page 28 herein.)

The Hospital, under certain circumstances, may incur indebtedness ("Parity Debt"), secured by a security interest in the Hospital's Gross Revenues which is on a parity with the 1985 Bonds and any Additional Bonds. (See "The 1985 Bonds—Security" at page 7 herein and "The 1985 Bonds—Additional Bonds and Parity Debt" at page 8 herein).

The Special Funds: In accordance with the terms of the Indenture the City has created the Debt Service Fund, Debt Service Reserve Fund, Depreciation Reserve Fund, Hospital Revenue Fund, Surplus Fund, Administrative Expense Fund and Project Fund (together called the "Special Funds"), all of which Funds (except for the Hospital Revenue Fund) shall be in the custody of the Trustee. Such Special Funds are pledged in the Indenture as security for the payment of the 1985 Bonds and any Additional Bonds. (See "The 1985 Bonds – Security" at page 7 herein.) For a description of the Special Funds, see "The Indenture – Special Funds" at page 35 herein, "The Indenture – Allocation of 1985 Bond Proceeds" at page 35 herein and "The Lease – Basic Rent and Additional Payments" at page 27 herein.

Sources of Payment of 1985 Bonds: The 1985 Bonds are special obligations of the City and do not constitute a general obligation, debt or bonded indebtedness of the City, the State of Ohio or of any other political subdivision or agency of the State of Ohio, and are payable solely from payments made by the Hospital and other amounts payable under the Lease, Indenture and Guaranty. (See "The 1985 Bonds – Security" at page 7 herein.)

The Study: Attached hereto as Appendix II and made a part hereof is the Comprehensive Economic and Financial Feasibility Study for the Proposed Refunding Program, prepared by Ernst & Whinney and dated January, 1985 (the "Study").

The purpose of the Study is to estimate the Hospital's ability to meet its operating expenses, working capital needs and other financial requirements, including debt service requirements of the 1985 Bonds, during the three-year period ending December 31, 1987.

The Study's forecasts indicate that sufficient funds could be generated to meet the operating expenses, working capital needs and other financial requirements of the Hospital, including debt service requirements of the 1985 Bonds, during the forecast period, extending through December 31, 1987.

The forecasts are based on assumptions which have been provided by, or reviewed with and approved by, the Hospital's management. However, assumptions may be affected favorably or unfavorably by many factors and, accordingly, there is no assurance the forecasts will be achieved.

The Study must be read in its entirety to understand the assumptions upon which the forecasts are based and the qualifications that have been made, which indicate that there is no assurance the forecasts will be achieved. (See "Appendix II" hereto.)

Debt Service Coverage: Using the Study's forecasts of excess of revenues over expenses before provision for depreciation and interest expense for the years ending December 31, 1986 and December 31, 1987, the estimated annual debt service during those years on the 1985 Bonds (using the Study's assumed principal amount of $15,075,000 and average annual interest rate on the 1985 Bonds of 11%) is covered 1.85 times and 1.89 times, respectively. (See "Certain Financial Information – Forecasted Debt Service Coverage" at page 26 herein).

OFFICIAL STATEMENT
RELATING TO THE ORIGINAL ISSUANCE OF

$15,375,000
CITY OF CAMBRIDGE, OHIO

HOSPITAL IMPROVEMENT REVENUE REFUNDING BONDS, SERIES 1985
(GUERNSEY MEMORIAL HOSPITAL PROJECT)

INTRODUCTION

The City of Cambridge, Ohio (the "Issuer" or "City") is a municipal corporation and a political subdivision organized and existing under the laws of the State of Ohio.

In 1972 the City issued $7,600,000 principal amount of its Hospital Improvement First Mortgage Revenue Bonds dated January 1, 1972 (the "1972 Bonds") for the purpose of improving and enlarging the then existing hospital facilities of Guernsey Memorial Hospital (the "Hospital"). The 1972 Bonds were issued under and secured by an Indenture of Mortgage dated as of January 1, 1972 (the "1972 Indenture") between the City and The Ohio National Bank of Columbus (now, BancOhio National Bank), as trustee (the "Trustee") and are now outstanding in the aggregate principal amount of $5,210,000. In 1982 the City issued $10,410,000 principal amount of its Hospital Improvement Mortgage Revenue Bonds, Series 1982 (Guernsey Memorial Hospital Project) dated October 1, 1982 (the "1982 Bonds") for the purpose of (1) constructing a new addition for surgery and radiology, (2) completing certain shelled space for laboratory, medical records, housekeeping and certain other uses, (3) replacing two existing elevators and adding a third, installing a new roof and adding certain heating, ventilating and air conditioning improvements, and (4) certain additional remodeling. The 1982 Bonds were issued under the 1972 Indenture, as amended by a Supplemental Indenture of Mortgage dated as of October 1, 1982 (the "1982 Indenture", and with the 1972 Indenture herein together called the "Original Indenture") and are now outstanding in the aggregate principal amount of $10,410,000.

The City now proposes to issue $15,375,000 principal amount of its Hospital Improvement Revenue Refunding Bonds, Series 1985 (Guernsey Memorial Hospital Project) (herein sometimes called the "1985 Bonds") dated, to mature and to bear interest at the rates per annum as set forth on the front page of this Official Statement and as more fully set forth hereinafter. The 1985 Bonds are to be issued in accordance with the laws of the State of Ohio, particularly Chapter 140, Ohio Revised Code, an ordinance of the City Council of the City (the "Bond Legislation"), and a Trust Indenture dated as of February 1, 1985 (the "Indenture") between the City and the Trustee.

PURPOSE OF BOND ISSUE

Proceeds from the sale of the 1985 Bonds, together with the Equity Contribution of the Hospital, will be used by the City to advance refund the City's outstanding 1972 Bonds and 1982 Bonds, to fund the Debt Service Reserve Fund for the 1985 Bonds and to pay certain costs related to the issuance of the 1985 Bonds (See "Estimated Sources and Uses of Funds").

ADVANCE REFUNDING

1972 Bonds and 1982 Bonds

Pursuant to the terms of an Escrow Agreement dated as of February 1, 1985 (the "Escrow Agreement") among the City, the Hospital and the Trustee, as escrow and refunding trustee (the "Escrow Trustee"), a portion of the 1985 Bonds proceeds, together with a portion of the Hospital

Equity Contribution, will be deposited in a separate trust account with the Escrow trustee and used to purchase (i) from the Department of Treasury, United States Treasury Obligations—State and Local Government Series, and (ii) in the open market, other United States Treasury obligations (collectively called "Government Securities"). Government Securities are direct obligations of the United States of America. The Government Securities will be purchased in such amounts and maturities and will earn interest at such rates as to provide sufficient monies to pay, by redemption or at maturity, all of the principal of, premium for early redemption and interest on the 1972 Bonds and 1982 Bonds.

Upon purchasing the Government Securities in accordance with the terms of the Escrow Agreement and receipt of the verification hereinafter set forth, the 1972 Bonds and the 1982 Bonds will be deemed to have been paid and discharged within the meaning of the Original Indenture and the Original Indenture will cease, determine and become null and void and the City's obligations under such Original Indenture will be discharged and satisfied.

Verification By Independent Accountants

The arithmetical accuracy of the mathematical computations supporting the adequacy of the maturing principal amounts of, and interest earned on, the Government Securities purchased pursuant to the Escrow Agreement to pay the principal of, premium for early redemption and interest on the 1972 Bonds and 1982 Bonds will be verified by Ernst & Whinney prior to the delivery of the 1985 Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 1985 Bonds, together with the Equity Contribution of the Hospital, will be applied by the Trustee, under the provisions of the Indenture, for the

following uses and in the following respective estimated amounts (exclusive of accrued interest to be paid on the 1985 Bonds).

Sources of Funds:		
1985 Bond Proceeds		$15,375,000
Hospital Equity Contribution(1)		3,325,000
Total Sources of Funds		$18,700,000
Uses of Funds:		
Deposits to:		
Escrow Fund(2)	$16,011,200	
Debt Service Reserve Fund(3)	1,929,512	$17,940,712
1985 Bond discount, legal, consulting, escrow verification and incidental costs(4)		759,288
Total Uses of Funds		$18,700,000

(1) The Hospital Equity Contribution includes funds held by the trustee under the Original Indenture, as follows: Debt Service Fund of approximately $325,000, Debt Service Reserve Fund of approximately $1,957,000, Replacement and Improvement Fund of approximately $355,000, and the Contingency Reserve Fund of approximately $539,000. All such amounts were funded with payments made by the Hospital and not from the proceeds of the 1972 Bonds or 1982 Bonds.

(2) Represents the amount which will be deposited with the Escrow Trustee and used to purchase Government Securities.

(3) Represents the amount which is required to be deposited at Bond closing in such Fund by the Hospital and from Hospital funds so that the balance therein equals the maximum principal and interest requirements on the 1985 Bonds in any subsequent fiscal year (the "Debt Service Reserve Requirement").

(4) Except for 1985 Bond discount, all such expenses are expected to be paid from 1985 Bond proceeds deposited in the Administrative Expense Fund.

THE 1985 BONDS

General Terms

The 1985 Bonds, which shall be dated, bear interest at the rate per annum, and mature in the year and in the principal amounts as shown on the front page hereof, are being issued as serial and term bonds, in registered form only, and in the denominations of $5,000 and whole multiples thereof.

Interest on the 1985 Bonds will be payable semiannually on June 1 and December 1, commencing June 1, 1985. Principal of and redemption premium, if any, on all 1985 Bonds are payable upon their presentation and surrender at the corporate trust office of the Trustee. Interest on the 1985 Bonds will be mailed to the registered holder as of the applicable record date at the address appearing on the registration books maintained by the bond registrar (currently the Trustee).

1985 Bonds are transferrable and exchangeable without charge to the bondholder upon presentation to the bond registrar and as provided in the Indenture. The Trustee may charge a bondholder an amount equal to any tax or excise required to be paid in connection with any such transfer or exchange.

Security

The 1985 Bonds, including the interest thereon and any redemption premium therefor, are special obligations of the City and are payable solely from the rentals, revenues and other amounts to be received by the City from its ownership of the Leased Premises, or as to be otherwise derived or available, all as provided in the Lease, the Indenture and the Guaranty.

To secure the payment of the principal of, premium, if any, and interest on the 1985 Bonds and any Additional Bonds issued under the Indenture, (1) the City, in the

Indenture, has (i) granted to the Trustee a lien on and a security interest in Hospital Receipts (defined generally as all monies, investments and proceeds of investments received by the City or the Trustee from or in connection with the ownership, lease, operation, acquisition, construction, improvement, equipping or financing of the Leased Premises, including monies in the Special Funds, less any reasonable and proper expenses of the City or the state of operating, maintaining and repairing the Leased Premises), and (ii) assigns to the Trustee (subject to limited exceptions) its right, title and interest in and to the Lease, including the City's right to receive Basic Rent from the Hospital under the Lease, and (2) the Hospital, in the Guaranty, has unconditionally guaranteed to the Trustee the payment of the principal of, premium, if any, and interest on the 1985 Bonds when due.

To secure its obligation to pay Basic Rent and to comply with its other obligations under the Lease, the Hospital, in the Lease, has granted the City a security interest in its Gross Revenues, which security interest has been assigned by the City to the Trustee in the Indenture. (See "The Lease—Pledge of Gross Revenues" for a general description of Gross Revenues.)

To the extent that a security interest can be perfected (i.e., be successfully asserted against a trustee in bankruptcy of the Hospital) in the Gross Revenues by the filing of financing statements, such action will be taken. As to certain items included in Gross Revenues, namely, documents, instruments and cash, perfection can only be accomplished if the City (or the Trustee) also has possession thereof. The Lease does not require that documents, instruments and cash be maintained in the possession of the City (or the Trustee). The City's security interest in the Hospital's Gross Revenues may be subject to limitations on enforceability and may be subordinated by operation of law to the interests and claims of others in several

instances. Under current law, enforceability and priority of those interests may be modified and limited by (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal bankruptcy laws and state laws governing fraudulent conveyances or affecting assignment of revenues or assets by the Hospital or the City that may affect the enforceability of the Lease or assignments of revenues earned by the Hospital after any effectual institution of proceedings thereunder by or against the Hospital or the City, (vi) rights of third parties in Gross Revenues converted to cash and not in possession of the secured party and (vii) claims which might arise if appropriate financing or continuation statements are not filed in accordance with the Ohio Uniform Commercial Code as from time to time in effect.

The 1985 Bonds, including the interest thereon and any redemption premium therefor, are not general obligations, debt or bonded indebtedness or a pledge of the faith and credit of the City, nor do the 1985 Bonds require the use of the general resources of the City, the State of Ohio or of any other political subdivision thereof, and the holders or owners of such 1985 Bonds shall have no right to have excises or taxes levied by the City, the State of Ohio, or the taxing authority of any political subdivision for the payment thereof.

[INTERMEDIARY'S EXHIBIT F]

GUERNSEY MEMORIAL HOSPITAL
ACTUAL SOURCE AND USE OF 1985 BOND FUNDS

Source of Funds		
1985 Bond Proceeds		$15,375,000
Hospital Equity Contribution		
Debt Service Fund	327,454	
Debt Service Reserve Fund	1,967,908	
Replacement Fund	354,730	
Contingency Fund	539,012	
Construction Fund	1,359,725	
		4,548,829
Total Sources of Funds		$19,923,829
Use of Funds		
Deposit to Escrow Fund		$16,011,200
Deposit to Debt Service Reserve		1,929,512
Bond Financing		786,788
Deposit to Funded Depreciation		1,196,329
Total Uses of Funds		$19,923,829

[INTERMEDIARY'S EXHIBIT G]

GUERNSEY MEMORIAL HOSPITAL
CALCULATION OF LOSS ON RE-FINANCING

New Debt		
Purchase of Escrow Securities		$16,011,200
Net Reacquisition Price		16,011,200
Old Debt		
1982 Bonds Outstanding	10,410,000	
1972 Bond Outstanding	5,220,000	
Unamortized Bond Financing Costs ..	– 709,499	
Interest expense payable	416,880	
Other	– 1,238	
Net Carrying Amount		15,336,143
Loss on Re-financing		($675,057)

Supreme Court of the United States

No. 93-1251

DONNA E. SHALALA, SECRETARY OF HEALTH AND HUMAN SERVICES, PETITIONER

v.

GUERNSEY MEMORIAL HOSPITAL

ORDER

ORDER GRANTING CERTIORARI. Filed April 4, 1994.

The petition herein for a writ of certiorari to the United States Court of Appeals for the Sixth Circuit is granted.

April 4, 1994